**Index**

A

AAR. see average accounting rate of return
abandonment option for capital projects, 3:54
defined, 3:52
Abbott Laboratories, 4:168
Abenomics, 1:588
AB InBev. see Anheuser-Busch InBev
abnormal earnings, 2:4
abnormal returns, 1:347–348; 4:7
ABO, see accumulated benefit obligation
ABS, see asset-backed securities
absolute convergence, 1:565
absolute valuation models, 23–25
accounting
classroom information, regular statements of, 1:77
accounting book value, 6:353n.19
for capital project cash flows, 3:56
clean surplus, 4:206n.12, 493n.3
and book value/future earnings, 4:516
and net income comparisons, 2:183
and residual income model, 4:504
violations of, 4:517–525
dirty-surplus, 2:183
fair value, 4:419–422; 6:353
gain-on-sale, 2:358
inventory, 4:390, 419, 525
market-based, 5:317
mark-to-market, 6:353n.19 (see also fair value accounting)
Accounting and Corporate Regulatory Authority (ACRA), 1:704
accounting choices, 2:293–294
accounting estimates, 4:387n.12
accounting income, 3:59–61
accounting information, for equity valuation, 4:18–22
accounting methods for cash flow, 4:433
equity method, 2:24–35
at Deutsche Bank, 2:25–26
example, 2:24–25
fair value option, 2:30
and goodwill, 2:29–30
impairment, 2:31
investment costs in excess of book value, 2:27–28
issues for analysts with, 2:34–35
and sale of inventory, 2:32–34
and transactions with associates/joint ventures, 2:31–34
pooling of interests method, 2:37, 42n.29
and residual income model, 4:516–529
accounting for intangible assets, 4:526–528
accounting for nonrecurring items, 4:528–529
aggressive accounting practices, 4:529
balance sheet adjustments for fair value, 4:525
clean surplus violations, 4:517–525
uniting of interests, 2:37
Accounting Quality Model, 2:314
accounting risk, 3:262
accounting scandals, 3:209–210
accounting standards, international differences in, 4:449–450. see also specific standards
Accounting Standards Codification (ASC)
Business Combinations (ASC 805), 2:10, 4:561n.11, 578, 584
Consolidation (ASC 810), 2:10, 43n.30, 52
Fair Value Measurements (ASC 820), 4:559n.5, 561n.12–13, 579
Financial Instruments (ASC 825), 2:20
Goodwill and Other Intangible Assets (ASC 350), 4:559n.5–6
Investments–Debt and Equity Securities (ASC 320), 2:10, 22n.12
Investments–Equity Method and Joint Ventures (ASC 323), 2:10
Share-Based Payment (ASC 718), 4:560n.7
accounting standard-setting bodies, regulatory recommendations of, 1:703
accounting systems, corporate investments in, 2:9
account reviews
firm policies on, 1:77
regular, 1:94
systematic, 1:86
accounts
with beneficial ownership, 1:158, 159
family, 1:80, 160–161
in performance calculations, 1:100
working capital, 2:386
accounts receivable, earnings quality and, 2:322, 327
accrual periods
for interest rate options, 5:414, 415
for Libor spot market, 5:325
for swaps, 5:345
for swaptions, 5:418
accruals in Beneish model, 2:307
as component of earnings, 2:313–314
discretionary vs. non-discretionary, 2:314
earnings quality and measures of, 2:313–318
in long-term equity investment case study, 2:395–396
accruals ratios, Nestlé, 2:396
accrued interest, for fixed-income forwards and futures, 5:333, 334
accumulated benefit obligation (ABO), 2:79n.5
accumulated other comprehensive income (AOCI), 4:521
acquiring company (acquirer), 3:280
acquisition(s), see also mergers and acquisitions
bargain, 2:40
as business combination, 2:36
business valuations before, 4:559
and convertible bonds, 5:169
defined, 3:280; 4:9
financial report quality issues in, 2:300–301
form of, 3:288–289
short-term stock return performance in, 1:347–348
acquisition capital (private equity class), 6:137
acquisition method for business combinations, 2:38–42
acquisition price less than fair value, 2:40
assets and liabilities in, 2:38
contingent liabilities in, 2:38
financial assets and liabilities in, 2:39
goodwill in, 2:39
indemnification assets in, 2:38–39
post-combination balance sheet for, 2:40–42
acquisition price, fair value and, 2:40
ACRA, see Accounting and Corporate Regulatory Authority
Actavis Equity S.a r.l., 2:26
actions
investment (see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V])
fair dealing in, 1:83–84
firm policies on, 1:77
impact of, 1:12–13
personal, 1:55
unethical, 1:29
activation function (neural network), 1:836
active factor risk, 6:298
active investment strategy, 6:253
active managers
active risk and guidelines for, 6:297
objectives of, 6:294
Active portfolio management, 6:471–532
for bond portfolios, 5:20–24
comparing strategies in, 6:505
fundamental law of active management, 6:487–515
and active security returns, 6:488–492
applications of, 6:499–512
basic fundamental law, 6:492–494
ex ante measurement of skill with, 6:512–513
and ex post performance, 6:497–499
fixed-income strategies based on, 6:506–512
full fundamental law, 6:494–497
global equity strategy based on, 6:499–506
in optimal portfolio construction, 6:497
and independence of investment decisions, 6:513–514
limitations of, 6:512–515
and modern portfolio theory, 6:471–472
multifactor models for, 6:301
practice problems, 6:518–526
rebalancing in, 6:511–512
risk and return in, 6:477–487
information ratio, 6:480–482, 486–487
optimal portfolio construction, 6:482–487.
Sharpe ratio, 6:477–480
rules-based, 6:301
solutions to problems, 6:527–532
value added metric, 6:472–477
benchmarks for, 6:472–473
calculations of, 6:473–475
for country equity markets, 6:475
decomposition of, 6:475–477
active returns, 6:294–296. see also value added (metric)
and active risk, 6:296–297
calculating, 6:473–475
decomposition of, 6:294–296
defined, 6:294
and fundamental law of active management, 6:488–492
for global equity portfolio, 6:499–506
and information ratio, 6:481
optimal expected, 6:492–493
in optimal portfolio construction, 6:485
scaling forecasts of, 6:491–492
variance in, 6:498
active risk, 6:296–300
and active manager guidelines, 6:297
active return, 6:296–297
comparing investments based on, 6:299–300
decomposing, 6:297–299
defined, 6:296
for fixed-income portfolios, 6:507
for global equity portfolio, 6:499, 505
and information ratio, 6:480–481
optimal, 6:497
in optimal portfolio construction, 6:483–485
active risk squared, 6:298
active share, 6:356, 481
active specific risk, 6:298–299
active weights
in full fundamental law of active management, 6:494
for global equity portfolio, 6:501
sizing of, 6:491–492
in value added calculations, 6:474
Actual/360 day count convention, 1:549n.7
actual default probability, 5:203, 204
actuarial gain, 2:80, 83–85
actuarial loss, 2:80, 83–85
ACWI. see MSCI All Country World Index
Additional Compensation Arrangements [Standard IV(B)], 1:116–117
application of the standard, 1:116–117
in case studies, 1:210–211, 219
compliance procedures, 1:116
guidance, 1:116
text of, 1:17, 116
additional services, for select clients, 1:88
add-on basis, interest rates on, 5:325n.10
Adebonojo, Enitan, 2:290
Adelphia Communications, 3:210, 233
adequate compliance procedures, 1:116
adjusted earnings, 4:386
adjusted funds from operations (AFFO) in Capitol Shopping Center REIT Inc. case study, 6:115, 118
growth in, 6:104
P/AFFO multiple, 6:104, 109–110
adjusted historical estimates of equity risk premium, 4:65–68
adjusted present value (APV), 4:286n.2
adjusted price, for fixed-income forwards/futures, 5:334
adjusted R², 1:343–344
administrative costs, 6:157
administrative law, 1:703
administrative regulations, 1:703
ADR. see American Depositary Receipt
ADR ratio, 4:389–390
advanced discounted cash flow method for real estate valuation, 6:41–45
advanced economies. see also developed countries
classification, 1:622n.1
convergence of developing and, 1:682
real GDP growth and real GDP per capita, 1:621, 622
advanced settle payment convention (advanced set), 5:326, 327, 414
adverse selection, 1:706
adviser-assisted digital wealth managers, 1:252
advisers
robo-, 1:239, 241, 250–252
selecting, 1:129
Aegon N.V., 2:274–276
affiliates, income from, 4:132
AFFO. see adjusted funds from operations
Africa. see also specific countries
development strategies, 1:680, 681
real GDP growth and real GDP per capita, 1:622, 623
soft crops, 6:195
AFS securities. see available-for-sale securities
after-tax costs
of debt, 3:101–102
of equity, 3:102
after-tax interest, FCFF and, 4:290
AGA. see American Gas Association
Agarway, Subath (case study), 1:212–216
case facts, 1:212–214
disclosure of conflicts [Standard VII(A)], 1:215–216
independence and objectivity [Standard I(B)], 1:215
knowledge of the law [Standard I(A)], 1:214–215
age, depreciation and, 6:46–49
age distribution, of population, 1:643
agency costs
of capital structure decisions, 3:104–105
dividends to control, 3:144–147
of equity, 3:104
agency problems, 3:207–210, 230;
4:557–560
agency relationships, 3:206–210, 230–234
director–shareholder conflicts, 3:233–234
information asymmetry in, 3:207–208
manager–shareholder conflicts, 3:231–233
principal–agent relationships, 3:206–207
agency risk, for private equity investments, 6:157
agency writers, of insurance policies, 2:266
agendas, of board of directors, 3:252
agent options, 1:154
aggressive accounting choices, 2:293;
4:529
aggressive estimates, 4:20
agriculture, 6:224, 225. see also grains
Ahold, 4:127–128, 146
AI. see artificial intelligence
AIA Group, 2:278–279
AICPA. see American Institute of Certified Public Accountants
AIDS epidemic, 1:625
AIG, 5:277
AIMR. see Association for Investment Management and Research
Airbus, 3:206
Air France-KLM, 4:168
airline industry
cost of goods sold in, 4:118
credit spreads in, 6:432
Albert Heijn, 4:118–119
algorithmic trading, defined, 1:253;
6:534
algorithmic trading and high-frequency trading, 6:533–557
algorithmic techniques as safety net, 6:542–544
real-time market monitoring/surveillance, 6:543–544
risk management, 6:542–543
algorithm life cycle, 6:539–540
American Institute of Certified Public Accountants (AICPA), 4:18

Apple Inc.

long-term growth, 4:168

price increases, 4:145

tablet computers, 4:153–154
terminal value, 4:167

applicable law

and Code/Standards, 1:22–23

on confidentiality, 1:102

in firm policy, 1:77

global, 1:24–25

and investment products, 1:23–25

providing information on, 1:27

staying informed about, 1:26

application programming interfaces (APIs), 6:540

appraisal-based real estate indexes, 6:58–59

Appraisal Foundation, 4:578, 581n.34, 595, 596

appraisal lag, 6:60–61

appraisals

private company, 4:56n.1

real estate

for commercial real estate, 6:22–25

growth explicit, 6:34

with level NOI, 6:36

with terminal value, 6:35–36

appraisers, cash flow forecasts by, 4:567–568

appreciation
capital, 6:13, 82

of currencies, 1:577

in currency options, 5:457

of equity market, 1:630

price, 6:13

approval, for outside compensation, 1:117

approved lists of equity, 3:137

A.P.T., see arbitrage pricing theory

APV, see adjusted present value

AQL, see asset quality index

Aqua America Inc., 4:216

AR(1), see first-order autoregression

AR(2), see second-order autoregression

AR(n), see nth-order autoregression

arbitrage

and commodity contracts, 6:203–204

with convertible bonds, 5:170–171

and credit default swaps, 5:293

defined, 6:280

with forward exchange rates, 1:548–550

index, 6:536

in investment opportunities, 5:378n.1

opportunities for, 5:77–78

portfolio returns for no arbitrage condition, 6:282–284

principle of no arbitrage, 5:76–77

regulatory, 1:706–707

risk, 6:280n.4

risk-arbitrage trading, 1:63

and spot exchange rate quotes, 1:544–548

statistical, 6:535–536

triangular, 1:544–546

arbitrage-free models of term structure, 5:42–45

equilibrium models vs., 5:39

Ho–Lee model, 5:42–44

partial equilibrium model, 5:44
arbitrage-free valuation, 5:75–117
arbitrage opportunities, 5:77–78
binomial interest rate trees, 5:79–100
binomial valuation method, 5:81–85
calibrating trees to match term structures, 5:92–94
collection of options for, 5:87–94
determining bond's value at a node, 5:85–87
estimating interest rate volatility, 5:85
in pathwise valuation, 5:96–100
pricing bonds with, 5:86–87
and valuing bonds with spot rates, 5:79–80
valuing option-free bonds with, 5:94–96
confirming arbitrage-free values, 5:95–96
of convertible bonds, 5:173
defined, 5:76
forward contracts, 5:309–343
carry arbitrage model for forwards vs., 5:342–343
currency forwards, 5:338–342
equity forwards, 5:322–324
fixed-income forwards, 5:333–334, 337–338
generic no-arbitrage forwards, 5:311–321
interest rate forwards, 5:324–333
pricing and valuation notation, 5:309–311
futures contracts, 5:322–343
carry arbitrage model for forwards vs., 5:342–343
currency futures, 5:338
equity futures, 5:322
fixed-income futures, 5:333–337
interest rate futures, 5:324–325
pricing and valuation notation, 5:309–311
implications of, 5:79
law of one price, 5:77
Monte Carlo method, 5:100–101
options, 5:376–377, 401
practice problems, 5:104–111
principle of no arbitrage, 5:76–77
principles for forward commitments, 5:308–309
risk-free bonds, 5:219–234
binomial interest tree for, 5:219–221
corporate bonds, 5:223–227
floating-rate notes, 5:227–234
government bonds, 5:221–222
solutions to problems, 5:112–117
swap contracts, 5:343–361
currency swaps, 5:349–356
equity swaps, 5:356–361
interest rate swaps, 5:345–349
receive-fixed pay-floating swaps, 5:344–345
receive-floating pay-fixed swaps, 5:343–344
arbitrage opportunities defined, 6:280
portfolio return as indicator of, 6:282–284
arbitrage portfolio, 6:283
arbitrage pricing theory (APT)
CAPM vs., 6:279–280
estimating risk premium with, 3:49
and multifactor models, 4:79
assumptions in, 6:279–280
calculating expected return to portfolio, 6:280–281
Carhart four-factor model, 6:283–285
parameters in one-factor APT model, 6:281–282
portfolio returns for no arbitrage condition, 6:282–284
one-factor APT model, 6:281–282
arbitrage profit, borrowing, 5:313–315
arbitrageurs
and commodity markets, 6:203–204, 207
in financial markets, 5:378
fundamental rules for, 5:308, 311–312, 376, 378
ARCH. see autoregressive conditional heteroskedasticity
ARCH(1). see first-order autoregressive conditional heteroskedasticity
ARCH(p). see p-th order autoregressive conditional heteroskedasticity
Archer Daniels Midland Company, 1:396, 421, 3:206
Argentina
Basel Committee membership, 2:217
economic growth, 1:626–628
exchange rate crisis, 1:588
natural resources, 1:641
openness of economy, 1:680
real GDP per capita, 1:622, 677, 678
sovereign credit risk, 6:433
ARGUS Valuation DCF, 6:284
arithmetic mean, 4:60, 63–64, 458–459
ARMA models. see autoregressive moving-average models of time-series analysis
AR models. see autoregressive models for time-series analysis
Arthur Andersen, 2:328
Articles of Incorporation, 1:23
artificial intelligence (AI)
see as analytical tool, 2:244–245
fintech for, 1:240
outside of finance, 1:246
artificial neural networks (ANNs), 1:386
ARY. see all risks yield
ASA. see American Society of Appraisers
ASC. see Accounting Standards Codification
ASF. see available stable funding
Asia. see also specific countries
cash dividends paid, 3:127
central banks in, 6:423
commodity exchanges, 6:207
corporate governance failures, 3:226
covered bonds in, 5:250
diversified REITs, 6:94
firms with negative book value for equity, 1:528
publicly traded real estate equities, 6:81
real GDP growth and real GDP per capita, 1:621, 623
regulatory response to global financial crisis, 1:707
reverse stock splits, 3:133
soft commodities, 6:195
swaps market, 5:25
Asian Development Bank, 2:215
6:434
Asian Infrastructure Investment Bank, 2:215
ask price, in FX market, 1:541
ASIM International, 4:649–450
assessed value, of property, 6:23
asset allocation
multifactor models for, 6:293
strategic and tactical, 6:254–255
and time horizon, 6:262–263
value added due to, 6:475–477
asset-backed commercial paper (CP), 5:248
asset-backed securities (ABS), 5:247–251. see also specific types
expected exposure for, 5:249–250
probability of default for, 5:249
structure of, 5:250
asset class, 3:98
asset class(es), 5:248
real estate vs. other, 6:9–11, 17–18
returns by, 6:13, 14, 82, 85
asset/liability matching (ALM),
6:227–228
asset liquidity, 6:262
asset management, 6:16
Asset Manager Code of Professional Conduct (AMC), 1:10, 27, 129
asset managers, 6:355–358
asset pools
for covered bonds, 5:251
for securitized debt, 5:250
asset quality, in bank analysis,
2:223–228, 245–252
asset quality index (AQI), 2:307
asset risk, 3:262
assets
in acquisition method, 2:38, 39
artificial price volatility, 1:70–72
available-for-sale, 2:16–17
average, 2:391
of banks, 2:236
base composition of, 2:384–385
cash operating return on, 2:391–392
of Citigroup, 2:255–256
composition of, 2:225–226
contingent, 2:55
credit quality of, 2:226–228
current exchange rate for all (see current rate method)
custody of client, 1:74
disclosure of net pension, 2:97
expenditures at Nestlé, 2:388–390
financial, 2:10–22
accounting treatments for, 2:9–10
in acquisition method, 2:39
for asset quality evaluation, 2:224
available-for-sale, 2:12–14, 16–17
classification and measurement of, 2:20–22
fair value through profit or loss,
2:10

Index
held by financial institutions, 2:215
held-to-maturity, 2:10–11
impairment of, 2:15–19
as investment category, 2:9
loans and receivables, 2:12–14
reclassification of, 2:14–15, 22
valuation of, 5:76
guideline assets, 4:379
indemnification, 2:38–39
intangible
in excess earnings method, 4:578
in pre-money valuations, 6:149
and private company valuation, 4:556
in residual income valuations, 4:526–528
leased, 2:52–53
long positions in, 5:454, 468
long-term, 4:133
monetary, 2:145–147
net asset balance sheet exposure, 2:148
nonearning, 4:441
nonfinancial, 4:422
nonmonetary, 2:145
nonoperating, 4:337, 563
non-traded, 4:76–79
and operating cash flow, 2:398
outright long positions in, 5:454
personal-use, 4:564
of product groups, 2:394
purchasing of, as form of acquisition, 3:289
return on, 4:243, 244, 403n.25
risk-weighted, 2:221
synthetic, 5:454–456
**Assets Acquired in a Business**
Combination to Be Used in Research and Development Activities (IPRD Practice Aid), 4:574n.25, 578, 595–596
assets under management (AUM), 2:241
asset valuation
economic factors in, 6:379–469
asset values and expectations of future cash flows, 6:383
bonds, 6:383–437
commercial real estate, 6:452–457
and connections of financial activity with economy, 6:380
equities, 6:437–451
practice problems, 6:461–465
with present value model of asset valuation, 6:380–382
solutions to problems, 6:466–469
and equity, 4:24–25
expectations of future cash flows in, 6:383
for financial assets, 5:76
present value model of, 6:380–382
for private companies, 4:562, 586–588
asset weighing, 1:99
Assicurazioni Generali, 5:450
associated gas, 6:193
associates
Deutsche Bank, 2:25
intercorporate investment in, 2:23–35
accounting treatment, 2:9–10
amortization of excess purchase price, 2:28–30
disclosure, 2:34
equity method of accounting for, 2:24–35
fair value option, 2:30
and goodwill, 2:29–30
impairment, 2:31
investment costs in excess of book value, 2:27–28
issues for analysts with, 2:34–35
and sale of inventory, 2:32–34
and transactions with associates, 2:31–34
as investment category, 2:9
transactions with, 2:31–34
Association for Investment Management and Research (AIMR), 4:32–33
assumptions
about error term, 1:290, 291, 334
about health care costs, 2:95–97
about post-employment benefits, 2:93–97
of arbitrage pricing model, 6:279–280
in bankruptcy prediction models, 2:332
of BSM model, 5:377, 402–404
of equilibrium term structure models, 5:39
financial statement reporting of changes in, 2:90–91
going-concern, 2:332, 4:8
homoskedasticity, 2:190, 399, 481
in long-term forecasting, 4:168–169
normality, 1:291n.25
for real estate valuation, 6:41–43
in simulations, 4:525
in stock option pricing models, 2:106–107
for venture capital method of valuation, 6:177
violations of regression analysis assumptions, 1:348–363
and heteroskedasticity, 1:349–355
in model specification, 1:364
and multicollinearity, 1:359–362
in multiple linear regression model, 1:334–335
and serial correlation, 1:355–359
AstraZeneca PLC
Dickey–Fuller test for, 1:466
EPS adjustments for nonrecurring items, 4:386–387
modeling unit root for, 1:466–469
x-period moving average for, 1:470
asymmetric information, 3:105, 207–208
at market, forward contracts, 5:310
@RISK (software), 3:45
6:139–140
AT&T, 4:402–405, 458
at-the-money options, 3:244
audit committees, 3:222, 241–242, 252, 253
audit costs, 6:157
auditors independent, 3:222
opinions of, 2:346–350
auditor shopping, 2:350
The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements (International Federation of Accountants), 4:18
audits, oversight of, 3:241–242
augmented Solow approach to economic growth, 1:671
AUM. see assets under management
Australia
active return and weights for equities, 6:389–504
algorithmic trading/HFT in, 6:541
Basel Committee membership, 2:217
bond spread, total returns and GDP growth, 6:420, 421
break-even inflation rates, 6:410–412
commodity exchanges, 6:207
common law, 3:113
covered bonds in, 5:250
currency crisis in, 1:596
dividend imputation tax system, 3:151
equity REITs, 6:83
ex post equity risk premium, 6:445
GDP growth rate, 4:211
government bond risk premiums, 6:422
historical equity risk premium, 4:61, 63
ICT capital in GDP, 1:647
Kyoto Protocol, 3:260
money supply growth and inflation, 1:264, 269, 294, 296
natural resources, 1:639, 641
OECD Principles, 2:56n.18
publicly traded real estate equities, 6:81
R&D expenditures, 1:650
real GDP per capita, 1:621, 622, 677, 678
real yields, 6:396, 397, 400
robo-advisory services, 1:250
Royal & Sun Alliance Group, 3:143
self-regulating organizations in, 1:704
Australian dollar, 1:553, 605
Australian Financial Services license, 1:250
Australian Prudential Regulation Authority, 2:217
Australian Securities and Investments Commission, 1:250
Austria
active return and weights for equities, 6:500, 503, 504
historical equity risk premium, 4:611, 63
OECD Principles, 3:256n.18
auto asset-backed securities (ABS), 5:248
autocorrelations of errors, 1:355–359, 450–452
of residuals, 1:450–452
of time-series data, 1:449
automated trading, 1:240
automotive industry, 4:17
Autonomy Corporation, 2:356–357
autoregressive conditional heteroskedasticity (ARCH)
testing for, 1:481–484
in time-series forecasting, 1:490
autoregressive (AR) models for time-series analysis, 1:447–460
challenges with, 1:436–437
comparing forecast model performance, 1:456–458
with conditional heteroskedasticity, 1:481–484
covariance-stationary series, 1:448–449
instability of regression coefficients, 1:458–460
mean reversion, 1:452–453
moving-average, 1:480–481
moving-average models vs., 1:469, 472–474
multiperiod forecasts and chain rule of forecasting, 1:453–456
seasonal lags in, 1:474–480
serially correlated errors in, 1:449–452
autoregressive moving-average (ARMA) models of time-series analysis, 1:480–481
availability
debt, 4:571
of transactions, 4:584
available-for-sale assets, 2:16–17
available-for-sale investments
impairments for, 2:16–17
intercorporate investments in, 2:12–14
reclassification of, 2:14–15
unrealized changes in market value for, 4:517
available-for-sale (AFS) securities, 2:247–249
available stable funding (ASF), 2:232–233
average accounting rate of return (AAR), 3:15–16
average assets, 2:391
average cost of inventory, 2:152
average hours worked, economic growth and, 1:646
average return on equity, 4:388
average trading VaR, 2:261–262
Avon Products, 1:500, 513; 4:120, 121
Axis Manufacturing Company, Inc., 4:499–495
B
Bachelier, Louis, 5:402
backwardation
defined, 6:209
and Insurance Theory, 6:213–214
and roll return, 6:220–225
backward induction methodology, 5:85–96
for bonds at nodes of binomial trees, 5:85–87
in construction of binomial interest rate trees, 5:87–94
for option-free bonds, 5:94–96
for risky bonds, 5:222, 228
backward integration, 3:280–281
backwardness effect, 1:679
BaFin, see Federal Financial Supervisor Authority
Baker Hughes Inc., 4:14
balance of payments flows
capital flows, 1:579–585
equity market trends, 1:582–585
and real interest rate differentials, 1:580–582
in current account, 1:576–579
debt sustainability channel, 1:578–579
flow supply/demand channel, 1:577
portfolio balance channel, 1:577–578
balance sheet modeling, 4:132–134
balance sheet quality, 2:342–346
clear presentation, 2:346
completeness, 2:343
Sealed Air Corporation, 2:344–346
unbiased measurement, 2:343
balance sheets
adjustments for fair value on, 4:525
assessing quality of expense recognition with, 2:329
Capitol Shopping Center REIT Inc., 6:116
common-size, 4:517
components of, 1:480
comparative balance sheets, 2:149–152
capital adequacy
and due diligence for equity REITs, 2:593
exposures on, 2:179
investment property on, 2:179
reclassifications on, 2:179
modifications to, 2:299
misstatement of items on, 2:653
of transactions, 2:340
for option-free bonds, 2:219
purchase of US Treasuries by Asian banks, 2:147–148
and slope, level, and curvature of yield curve, 2:617
Barron’s see also specific banks
central
business cycle and policy rates, 6:405–406
discount borrowing windows of, 1:723–724
estimates of potential GDP by, 1:630, 631
in exchange rate management, 1:595
purchase of US Treasuries by Asian banks, 2:147–148
and slope, level, and curvature of yield curve, 2:617
commercial, 2:215–216
corporate culture of, 2:239–240
defined, 2:220
deposits as liabilities of, 2:214–215
government ownership of, 2:239
government support of, 2:238–239
market risk management by, 6:354
missions of, 2:239
mortgage, 2:216
mutual, 2:216
promotion of economic growth, 1:623
return requirement and risk tolerance for, 6:261
risk budgeting by, 6:362–363
supervision of, 1:723
trust, 2:216
Barclays PLC, 3:179; 4:419–422
bargain acquisition, 2:40
bargaining power, 4:137–139, 170, 171
BARRA models, 6:293
BARRA US-E2 model, 6:291
BARRA US-E4 model, 6:299
base case scenarios defined, 4:135
for technological developments, 4:161, 162
base currency
in covered interest rate parity, 1:550
in exchange rate quotes, 1:541
Basel Committee on Banking Supervision, 1:707, 722; 2:217–220
Basel I, 2:219
Basel II, 2:219
Basel III, 2:219, 222, 232, 242, 259
base metals, see industrial metals

Index
Bank of Canada, 2:218; 4:212
Bank of England, 2:218
Bank of France, 2:218
Bank of Italy, 2:218
Bank of Japan, 2:218; 6:425
Bank of Korea, 2:218
Bank of Mexico, 2:218
Bank of Spain, 2:218
Bank Recovery and Resolution Directive (BRRD), 5:251
bank run, 2:214–215
bankruptcy
business valuation in, 4:559
and costs of financial distress, 3:103, 104
as credit event, 5:272
laws regarding, 1:714
bankruptcy prediction models, 2:331–342
Altman model, 2:331–342
developments in, 2:332
banks, see also specific banks
central
business cycle and policy rates, 6:405–406
discount borrowing windows of, 1:723–724
estimates of potential GDP by, 1:630, 631
in exchange rate management, 1:595
purchase of US Treasuries by Asian banks, 2:147–148
and slope, level, and curvature of yield curve, 2:617
commercial, 2:215–216
corporate culture of, 2:239–240
defined, 2:220
deposits as liabilities of, 2:214–215
government ownership of, 2:239
government support of, 2:238–239
market risk management by, 6:354
missions of, 2:239
mortgage, 2:216
mutual, 2:216
promotion of economic growth, 1:623
return requirement and risk tolerance for, 6:261
risk budgeting by, 6:362–363
supervision of, 1:723
trust, 2:216
Barclays PLC, 3:179; 4:419–422
bargain acquisition, 2:40
bargaining power, 4:137–139, 170, 171
BARRA models, 6:293
BARRA US-E2 model, 6:291
BARRA US-E4 model, 6:299
base case scenarios defined, 4:135
for technological developments, 4:161, 162
base currency
in covered interest rate parity, 1:550
in exchange rate quotes, 1:541
Basel Committee on Banking Supervision, 1:707, 722; 2:217–220
Basel I, 2:219
Basel II, 2:219
Basel III, 2:219, 222, 232, 242, 259
base metals, see industrial metals
base revenues, in simulations, 1:525
BASF AG, 2:138–140, 3:298–299
basic capital budgeting model, 3:58
basic earnings per share, 4:385
basic fundamentals of active management, 6:492–494
basis, 6:209
basis swap, 6:228
basis trading, 5:291–293
basket trading, 6:536
BBA. see British Bankers Association
BCOM. see Bloomberg Commodity Index
bear case scenario, 4:136, 161–163
bear hug, 3:292
bear spreads, 5:473, 475–476
Bechtel, 4:556
beer markets
Belgium
active return and weights for equities, 6:500, 503, 504
Basel Committee membership, 2:217
default-free government bonds, 6:425
historical equity risk premium, 4:61, 63
OECD Principles, 3:256n.18
regulation and government bailouts, 1:722–723
BelWerkTV, 6:57
benchmark(s)
for active management, 6:253
for bond valuation, 5:25
earnings quality and, 2:319
for fund performance, 6:161
and investment performance evaluation, 6:256
MSCI All Country World Index as, 6:499–505
net asset value per share, 6:98
for operating costs, 4:120
for performance evaluation, 1:93
for swaps, 5:29
and term structure of credit spreads, 5:243, 244
time value of money, 5:25, 26
for value added metric, 6:472–473
benchmark bonds, 5:79, 234–235
benchmark par curve, 5:81–82
benchmark tracking risk, 6:480. see also active risk
benchmark value of the multiple, 4:398–399
beneficial ownership, 1:158, 159
benefit plans, 2:241
Beneish, Messod D., 2:306, 309
Beneish model, 2:306–309
Berkshire Hathaway, 4:20
Bermuda, 6:96
Bermudan-style bonds
callable, 5:124, 140
puttable, 5:141–142
Best execution (term), 1:76, 78
Best Practice Guidelines Governing Analyst/Corporate Issuer Relations (CFA Institute), 1:33
beta. see also factor sensitivities
asset, 3:98
defined, 6:278n.1
as equity exposure measure, 6:339
factor, 4:79
indexes and estimation of, 4:72
for nonpublic companies, 4:77–77
for private equity investments, 6:144
for public companies, 4:73–77
required rate of return from, 3:49, 51
standardized, 6:289
for stock, 1:299–301
unlevering, 4:77, 78
BEV. see business enterprise value
Bharath, Sreedhar T., 2:332
BHP Billiton, 3:143; 6:216
bias
in accounting choices, 2:293
and balance sheet quality, 2:343
in bid–ask spread, 1:365–366
in inflation forecasts, 1:303–305
look-ahead, 4:461
survivorship, 4:65
bid–ask spread
multiple linear regression model for, 1:329–333
and nonlinearity of functional form, 1:366–370
and variable bias, 1:365–366
bid–offer quotes
arbitrage constraints on, 1:544–548
example, 1:546–548
in foreign exchange market, 1:541–543
bid–offer spread
defined, 1:541
for forward exchange rates, 1:551–554
from interbank markets vs. dealers, 1:541–542
and liquidity, 1:542–543, 554
bid price
in foreign exchange markets, 1:541
implied, 1:545–546
and spot exchange rate quotes, 1:544–548
big-box centers, 6:92
Big Data, 1:281
challenges with, 1:244
characteristics of, 1:242
and fintech, 1:241–244
machine learning to analyze, 1:246, 378–379
risk analysis with, 1:252
sources of, 1:242–244
bill-and-hold basis, sales on, 4:427–428
bill-and-hold revenue practices, 2:320, 322–324
binary classifiers, 1:379
binomial interest rate trees, 5:79–100
binomial valuation method, 5:81–85
calibrating trees to match term structures, 5:92–94
calibration, 5:87–94
determining bond's value at a node, 5:85–87
estimating interest rate volatility, 5:85
in pathwise valuation, 5:96–100
pricing bonds with, 5:86–87
testing calibration of, 5:178
and valuing bonds with embedded options, 5:133
and valuing bonds with spot rates, 5:79–80
valuing option-free bonds with, 5:94–96
and valuing risky bonds in arbitrage-free framework, 5:219–221
binomial lattices (binomial trees)
for call option with dividends, 5:394
of interest rates, 5:399
one-period, 5:379–380
for put options, 5:391
two-period, 5:387, 388
binomial option valuation model, 5:378–401
about, 5:378–379
BSM model vs., 5:406
interest rate options, 5:399–401
multi-period model, 5:401
one-period model, 5:379–386
call option, 5:382–385
expectations approach, 5:384–386
no-arbitrage approach, 5:379–384
put option, 5:383–384, 386
two-period model, 5:386–398
American-style options, 5:390–398
European-style options, 5:387–390, 394–398
expectations approach, 5:389–390
no-arbitrage approach, 5:387–389
binomial valuation method, 5:81–85
bird in the hand argument, 3:136
BIS. see Bank for International Settlements
bitcoin, 1:239, 255
Black, Fischer, 5:216, 377, 402, 412, 6:471
black box, 6:539
Black option valuation model, 5:412–419
BSM model vs., 5:377
for European options on futures, 5:412–414
for interest rate options, 5:414–417
for swaptions, 5:417–419
blackout periods, 1:159
BlackRock, 2:252
Black–Scholes–Merton option valuation model (BSM) model, 5:401–411
assumptions in, 5:377, 402–404
binomial model vs., 5:406–407
Black model vs., 5:377, 412
for call options, 5:404–409
with carry benefits, 5:377, 408
for currency options, 5:410–411
hedging risk and, 5:422
history, 5:402
implied volatility from, 5:429–430
and normal distribution, 5:405
for put options, 5:404, 406–409
stock and bond components of, 5:405, 407–408
for stock options, 5:409–410
for stocks, 5:404
as structural model, 5:216
bond market, 5:25–26, 291–292
bond portfolios (fixed-income portfolios)
active management of, 5:20–24
fundamental law of active management for, 5:306–512
independence of investment decisions with, 6:513–514
interest rate swaps in management of, 5:449
bond ratings. see debt ratings
bonds (in general). see also specific types, e.g.: government bonds
analysis of, 5:169–172, 178
arbitrageur strategy of buying, 5:335
and commercial real estate investments, 6:452
expected return on, 5:17–19
exposure to yield curve movement of, 5:45–47
pricing of (see also bond valuation)
with binomial interest rate trees, 5:86–87
Monte Carlo method, 5:100–101
quoted/clean price, 5:335
returns on
real estate vs. bonds, 5:17–18
realized and expected returns, 5:17–19
stock vs. bonds, 1:279; 5:173–175; 6:17–18
T-bills vs. bonds, 1:284
risk measurements for, 5:353
sensitivity exposure measures, 6:339–340
spreads for, 5:282–283
swaps as portfolios of, 5:343
bonds with embedded options, 5:121–200
about, 5:122
arbitrage-free valuation of, 5:80
bond analytics, 5:178
callable bonds, 5:127–150
default-free bonds, 5:129–132, 137–140, 142–145
with interest rate volatility, 5:137–140, 142–145
interest rate volatility and value of bonds, 5:132–134
and optimal exercise of options, 5:131
risky bonds, 5:145–150
and straight bonds/options, 5:127–128
and valuation of default-/option-free bonds, 5:128–129
and yield curve, 5:313–316
at zero interest rate volatility, 5:129–132
scenario analysis, 5:149–150
put options, 5:124
simple options, 5:123–124
floored floating-rate bonds, 5:163–166
interest rate risk, 5:130–161
duration, 5:151–158
effective convexity, 5:158–161
practice problems, 5:182–192
putable bonds, 5:127–150
default-free bonds, 5:130–132, 137–138, 140–145
with interest rate volatility, 5:137–138, 140–145
interest rate volatility and value of bonds, 5:132–134
and optimal exercise of options, 5:131
risky bonds, 5:145–150
and straight bonds/options, 5:127–128
and valuation of default-/option-free bonds, 5:128–129
and yield curve, 5:313–317
at zero interest rate volatility, 5:130–131

bond valuation, 6:383–437
bonds with credit premiums, 6:425–437
company-specific factors for, 6:433
credit spreads and credit risk premiums, 6:427–431
government bonds as, 6:425–426
industrial sectors and credit quality, 6:431–432
influences on credit premiums, 6:436–437
pricing formula, 6:426
and sovereign credit risk, 6:433–436
callable bonds, 5:127–150
default-free bonds, 5:129–132, 137–140, 142–145
and interest rate volatility, 5:132–134
with interest rate volatility, 5:137–140, 142–145
and optimal exercise of options, 5:131
risky bonds, 5:145–150
and straight bonds/options, 5:127
and valuation of default-/option-free bonds, 5:128–129
and yield curve, 5:313–316
at zero interest rate volatility, 5:129–132
capped floating-rate bonds, 5:161–163, 164–166
commodity valuation vs., 6:203
convertible bonds, 5:172–173, 176–178
default-free nominal coupon-paying bonds, 6:402–425
conventional government bonds, 6:410–413
influences on short-term default-free interest rates, 6:409
pricing formula, 6:402–403
short-term nominal interest rates and business cycles, 6:403
T-bill rates and business cycles, 6:404–409
yield curves and business cycles, 6:413–425
floored floating-rate bonds, 5:163–166
Monte Carlo method, 5:100–101
at nodes of binomial interest rate trees, 5:85–87
option-free bonds
with binomial interest rate trees, 5:94–96
default-free, 5:128–129
with spot rates, 5:79–80
pathwise, 5:96–100
putable bonds, 5:127–150
default-free bonds, 5:130–132, 137–138, 140–145
and interest rate volatility, 5:132–134
with interest rate volatility, 5:137–138, 140–145
and optimal exercise of options, 5:131
risky bonds, 5:145–150
and straight bonds/options, 5:127–128
and valuation of default–option-free bonds, 5:128–129
and yield curve, 5:136–137
at zero interest rate volatility, 5:130–131
real default-free bonds, 6:383–402
default-free interest rates and economic growth, 6:392–395
determination of real default-free interest rates, 6:384–392
real default-free interest rates and business cycles, 6:395–402
risky bonds, in arbitrage-free framework, 5:219–234
interest rate volatility for, 5:219–221
corporate bonds, 5:223–227
floating-rate notes, 5:227–234
government bonds, 5:221–222
swap rate curve in, 5:26–27
bond yield plus risk premium (BYPRP) method, 4:88–89
bonus compensation (bonuses), 1:116–117, 2:243, 244
bonus issue of shares, 3:130, see also
stock dividends
book-to-market ratio (B/P), 4:392
book value accounting, 6:333n.19
book value of equity (book value), see also
price to book value (P/B) adjusting, 4:419–422
defined, 4:378, 414
determining, 4:417–422
investment costs in excess of, 2:27–28
negative, 1:528
and residual income, 4:505–506
in residual income model, 4:516
simulations with constraints on, 1:527–528
book value per share (BVPS), 4:206, 414
computing, 4:417–418
and fair value accounting, 4:419–422
net asset value per share vs., 6:98
and share repurchases, 3:166–167
tangible, 4:418–419
bootstrapping
of earnings, 3:284–285
of zero-coupon rates, 5:15, 80, 208
Booz Allen Hamilton, 3:128–129
Borden, 2:312
borrowed funds, share repurchase with, 3:165–166
borrowing, as arbitrageur strategy, 5:312–315, 329, 335
Bosch, 4:556
Boston Beer Co., 4:391
Boston Scientific Corporation, 3:278–279
Botswana
health care, 1:625
natural resources, 1:640
real GDP per capita, 1:622, 677
bottom-up approach forecasting, 4:23
investing, 4:22n.7
modeling operating costs, 4:114
modeling revenue, 4:111, 112
working capital projections, 4:132
bottom-up clustering, 1:388
Bowman, Thomas A., 4:33n.17
Box–Pierce Q-statistic, 1:450n.20
Boyd Gaming Corp., 4:393–395
B/P, see book-to-market ratio
BP, see British Petroleum p.l.c.
brain drain, 1:624
Brazil
algorithmic trading/HFT in, 6:541–542
Basel Committee membership, 2:217
beer market, 4:137–138
coffee production, 6:202
commodity exchanges, 6:207
currency crisis in, 1:596
dividend distribution, 3:153
economic growth, 1:654
economic statistics of India vs., 1:694–696, 699
equity REITs, 6:83
estimates of potential GDP, 1:631
exchange rate crisis, 1:588
exchange rate management in, 1:594
exports of, 1:681
foreign exchange transaction tax, 1:580
foreign investment in, 1:625, 681
ICT capital and investment in GDP, 1:647, 648
labor and total factor productivity, 1:651
livestock investment in, 6:201
natural resources, 1:639, 640
openness of economy, 1:681
real GDP per capita, 1:622, 677
real yields, 6:397
sovereign debt default, 6:433
breath calculation for, 6:491
in full fundamental law, 6:495
and independence of investment decisions, 6:513
and mean–variance optimal active weight, 6:490
and rebalancing in active management strategies, 6:511–512
break-even inflation rates (BEIs) for conventional government bonds, 6:410–413
default-free yield curves, 6:413–415
and government bond yields, 6:413–415
break even price
for bear spreads, 5:476
for bull spreads, 5:474–475
for collars, 5:471
for covered calls, 5:462, 463
in derivatives strategies, 5:485–487
for protective puts, 5:467
breakup value, 3:286; 4:26
Brent crude oil, 1:471–472, 6:198
Breusch–Pagan test, 1:352–354
brewers, 4:118
Bridgestone, 4:90
BrisConnections Investment Trust, 2:26
British Airways, 4:251
British American Tobacco, 4:473
British Bankers Association (BBA), 1:532n.9
British Petroleum p.l.c. (BP)
forward P/E, 4:396
and hedging pressure hypothesis, 6:216
motives for merger, 3:283
required return on equity, 4:75–76
scaled earnings surprise, 4:451
British pound
AUD/GBP currency pair, 1:553
and BMW’s foreign currency exposure, 2:189, 190
correlation of exchange rate returns for, 1:275–277
currency code, 1:605
day count convention for, 1:549n.7
GBP/EUR currency pair, 1:545–546
USD/GBP currency pair, 1:542, 545–546
British Sky Broadcasting Group, 4:251–252
British Virgin Islands, 6:142
broken forward dates, points for, 1:552
brokerage arrangements, 1:76, 79; 4:31n.14
broker recruiting, 1:107
brokers, 2:216
Brookfield Office Properties, 6:697
Brother Industries, Ltd., 4:253–254
Brownian motion, geometric, 5:253–254
Brownian motion, geometric, 5:253–254
Budget deficits, potential GDP and, 1:528
budgeting
and default-free yield curves, 6:367–368
and residual income, 4:505–506
and VE maximization, 6:362–363
Buffett, Warren, 4:20
building retailers, pre-tax operating margin for, 1:524
building societies, 2:216
build-up method
for equity, 4:85–89
for private company, 4:85–88, 570–571
bull case scenario, 4:136, 161–163
bull spreads
defined, 5:473
refining, 5:476–479
strategies using, 5:473–475
Bundesbank, 1:587
Bundesverband deutscher Banken
(Deposit Protection Fund), 2:220
bundling, of software products, 1:716
bonds, 5:29
Bureau National Interprofessionnel du
cognac (BNIC), 4:170
Burger King, 6:216
business, forms of. see forms of business
business combinations, 2:35–56
accounting treatments for, 2:9–10
acquisition method of accounting for,
2:38–42
acquisition price less than fair value,
2:40
assets and liabilities, 2:38
contingent liabilities, 2:38
financial assets and liabilities, 2:39
goodwill, 2:39
indemnification assets, 2:38–39
post-combination balance sheet,
2:40–42
comparability issues, 2:55–56
on consolidated financial statements
combinations with less than 100%
acquisition, 2:42–43
consolidation process, 2:42
goodwill impairment, 2:46–48
noncontrolling interests, 2:43–46
financial statement presentation after,
2:48–51
IFRS and US GAAP comparability
issues, 2:55–56
contingent assets and liabilities, 2:55
contingent consideration, 2:55
in-process R&D, 2:55–56
restructuring costs, 2:56
as investment category, 2:9
with less than 100% acquisition,
2:42–43
pooling of interests and purchase
methods in, 2:37
special purpose entities, 2:51–55
types of, 2:35–36
Business Combinations (ASC 805), 2:10;
4:561n.11, 578, 584
Business Combinations (IFRS 3), 2:10
Business Combinations (IFRS 3R), 4:578
Business Combinations (SFAS 141R),
4:578
business conditions, for private real
estate investments, 6:15
business context for equity valuation,
4:12–22
accounting information, 4:18–22
financial reports, 4:14, 16
industry and competitive analysis,
4:12–14
quality of earnings analysis, 4:18–22
sources of information, 4:16–17
business cycle(s) and credit spreads, 6:428
and oil demand, 6:193
and policy rates set by central banks,
6:405–406
and real default-free interest rates,
6:390–402
and short-term nominal interest rates,
6:403
and T-bill rates, 6:404–409
and trailing P/E, 4:388–390
and valuation of commercial real
estate, 6:455–457
and valuation of equities, 6:452
and yield curves for default-free
nominal coupon-paying bonds, 6:413–425
business cycle risk, 4:85; 6:301, 302
business enterprise value (BEV),
4:580n.32
business laws, 3:210–211
business model, 4:13
business process data, 1:243, 244
business relationships, conflicts of
interest and, 1:152, 156
business strategy(ies)
ethical issues in, 3:211–214
evaluating, 4:10 (see also competitive
strategy)
business summary, research report,
4:36
business unit managers, agency
relationships of, 3:26–80
bungling, of software products,
Bundesverband deutscher Banken
I-10 Index
and short-term nominal interest rates,
4:127–128
and yield curve, 4:136–138
call options (calls), 5:123–124
American (see American call options)
bear spreads with, 5:476n.36
Black model for, 5:412
BSM model for, 5:404–409
convertible bonds with, 5:169, 173
covered calls, 5:459–464; 468–473
applications, 5:487–490
and cash-secured puts, 5:468–469
and collars, 5:470–473
deﬁned, 5:459
investment objectives of, 5:459–464
position equivalence for, 5:468
profit and loss at expiration, 5:462–464
risk with, 5:470
delta approximation for, 5:421, 422
delta for, 5:420; 6:341
delta-plus-gamma approximations for,
5:424–425
as embedded options (see callable
bonds) in Europa Venture Partners III case
study, 6:162
European (see European call options)
exercise values for, 5:579
gamma for, 5:424
impact of dividend payments on, 5:393
interest rate, 5:414, 415
on interest rates, 5:399–401
long, 5:492
lower bounds of, 5:427
make-whole, 5:123
naked, 5:459n.18
notation for, 5:579
objectives for, 5:484
one-period binomial model for,
5:380–385
rho of, 5:428–429
with sinking fund bonds, 5:125
in strategies
covered calls, 5:459–464, 468–473,
487–490
long calls, 5:492
synthetic calls, 5:457
strike calls, 5:478
synthetic, 5:457
in synthetic long position, 5:455
in synthetic short position, 5:455
two-period binomial model for,
5:387–390, 393–398
and value of callable/straight bonds,
5:127
vega of, 5:427
call price, 5:123
calls. see call options
CalPERS. see California Public Employees Retirement System
CAMELS approach, to bank analyses,
2:220–238
asset quality, 2:223–228
capital adequacy, 2:220–223
earnings, 2:228–232
illustration of, 2:242–264
asset quality, 2:245–252
capital adequacy, 2:242–245
earnings, 2:253–258
liquidity position, 2:259–260
management capabilities, 2:252–253
overall CAMELS assessment,
2:263–264
sensitivity to market risk, 2:260–263
liquidity position, 2:232–236
management capabilities, 2:228
sensitivity to market risk, 2:236–238
Cameron, 4:14–15
Canada
active return and weights for equities,
6:500, 503, 504
algorithmic trading/HFT in, 6:541
average hours worked, 1:46
Basel Committee membership, 2:218
bond spread, total returns and GDP
growth, 6:420, 421
break-even inflation rates, 6:412
cash dividends paid, 3:127
common law, 3:113
credit default swaps, 5:270
dividend payouts, 3:159, 178
dividend policy, 4:201
equity REITs, 6:83
ex post equity risk premium, 6:445
extendible bonds, 5:124
GDP and consumption, 6:441
GDP growth rate, 4:211, 212
government bond risk premiums,
6:422
historical equity risk premium, 4:61, 63
ICT capital and investment in GDP,
1:647
impairment of capital rule, 3:153
index-linked bonds, 6:396
and MSCI ACWI, 6:999
natural resources and economic
growth, 1:640
OECD Principles, 3:256n.18
publicly traded real estate equities,
6:81
R&D expenditures, 1:650
real estate operating companies, 6:97
real GDP per capita, 1:621, 622, 677, 678
regulatory requirements, 4:16
share repurchases, 3:161
Taylor rule for policy rates, 6:407, 408
Canadeco/Interco case study, 2:157–171
Canadian dollar
CAD/USD currency pair, 1:541n.2, 543
correlation of exchange rate returns,
1:275–277
currency code, 1:605
and Japanese yen, 1:283–284
Canadian Institute of Chartered
Business Valuators, 4:560n.9
canceled shares, 3:161
candidacy in CFA program, referring to,
1:171–172
Candidate Pledge, 1:167
candidates, CFA. see Responsibilities as
a CFA Institute Member or CFA Candidate [Standard of Professional
Conduct VII]
cannibalization
base case scenarios for, 4:161, 162
bull and bear case scenarios for,
4:161–163
as capital budgeting consideration,
3:9
estimating impact of, 4:159–163
quantifying potential for, 4:153–159
Canon, Inc., 4:506, 507
capabilities, from mergers and
acquisitions, 3:284
capacity-based measures, modeling
revenue with, 4:112
CAPE. see real cyclically adjusted P/E
capex. see capital investment
capital. see also weighted average cost of
capital (WACC)
access to, 6:104
acquisition, 6:137
adequacy of, in bank analysis,
2:220–223, 242–245
appreciation of, 6:113, 82
cost of, 3:9, 108; 4:493–494; 6:15, 144
debt, 6:10, 15
economic, 6:354
fixed, 4:290–291
in growth accounting equation,
1:637–638
human, 1:639, 646–647; 4:415
ICT, 1:639, 647–649
invested
market value of invested capital,
4:444, 580
return on invested capital, 4:444,
495n.5
total invested capital, 4:444
investment, 6:157
marginal product of, 1:634
non-ICT, 1:639, 649
output-to-capital ratio, 1:661, 662, 665,
666
paid in, 6:160, 163
physical, 1:647–649, 678, 679
for private equity investments, 6:157
public, 1:639
regulatory capital restrictions,
1:527–528
rental price of, 1:634
replacement, 6:137
return on, 4:112
risk, 3:203–204
ROIC, 1:301–303, 309–311
total, 6:433
working
and FCFF, 4:291
and free cash flow, 3:307; 4:299–301
on pro forma cash flow statements,
4:178–179
projections of, 4:132–133
capital accounts
current account and, 1:576
working capital, 2:386
capital accumulation, economic growth
and, 1:636, 666
capital allocation
for market risk management,
6:364–365
by product group, 2:392–395
by segment, 2:387–392
and VaR measurement, 6:334
and working capital accounts/quotas,
6:335–336
capital asset pricing model (CAPM),
4:53
and ANOVA, 1:306–307, 308n.38
arbitrage pricing theory vs.,
6:279–280
and arithmetic mean, 4:63–64
and Carhart four-factor model, 6:285
and equity risk premium, 4:59
expanded, 4:570
FFM vs., 4:83
and fundamental law of active
management, 6:488
heteroskedasticity and tests of, 1:351
investors’ expectations in, 4:54n.3
and multifactor models, 6:278–279
for private company, 4:87–88
and required rate of return for private
company, 4:570
required return on equity, 4:71–79
beta for nonpublic companies,
4:77–79
beta for public companies, 4:73–77
examples, 4:73–78
and risk, 3:49
strategic portfolio decision-making
based on, 6:303
capital budgeting, 3:5–92
cash flow projections, 3:27–38
depreciation, 3:31–34
and effects of inflation on analysis,
3:37–38
equation format, 3:29–31
for replacement projects, 3:34–35
spreadsheet modeling, 3:36–37
table format, 3:27–29
importance of, 3:6
investment decision criteria, 3:10–27
average accounting rate of return,
3:13–16
discounted payback period, 3:14–15
internal rate of return, 3:11–12,
18–25
net present value, 3:10–11, 17–22
payback period, 3:13–14
Cumulative_Ind_12 11
June 14, 2018 9:39 PM
capital budgeting (Continued)

popularity and use of capital budgeting methods, 3:25–27
profitability index, 3:16–17
other income measures and valuation models, 3:57–65
basic capital budgeting model, 3:58
claims valuation, 3:64–65
economic and accounting income, 3:58–61
economic profit, 3:62–63
residual income, 3:63–64
planning for, 3:7
popularity and use of, 3:25–27
practice problems, 3:69–82
principles, 3:8–10
process, 3:6–8
project analysis and evaluation, 3:38–57
with capital rationing, 3:40–42
for mutually exclusive projects with unequal lives, 3:38–40
pitfalls, 3:55–57
with real options, 3:52–55
risk analysis, 3:42–51
solutions to problems, 3:83–92
capital charge, 4:494
capital controls, for exchange rate management, 1:594–595
capital deepening
defined, 1:635
and economic growth, 1:635–637
and neoclassical model, 1:661, 667
capital expenditures
in FCFF calculation, 4:290–291
in forecasts of FCFE, 4:311–312
maintenance vs. growth, 1:635
of Nestlé, 2:387–392
in valuation of real estate investments, 6:43
doing business with, 2:328–329
capital flows
and convergence, 1:678–679
and currency crises, 1:597
and currency exchange rate, 1:579–585
in developing vs. developed countries, 1:625
and exchange rate management, 1:593
capital gains
current income vs., 3:152
dividends vs., 3:139–140
capital investment (capex), 4:178
capitalization
life and health insurance companies, 2:280
property and casualty insurance companies, 2:273
capitalization of earnings method, 4:570
capitalization rate (cap rate)
for capitalized cash flow method, 4:576
defined, 6:28
defined for direct capitalization method, 6:29–31
for discounted cash flow method, 6:33
going-in, 6:30, 34–36
in Gordon growth model, 4:217
and net asset value per share, 6:99–100
and net operating income, 6:28–29
residual, 6:34
terminal, 6:30, 34–36, 43–44
capitalization-weighted market indexes, float-adjusted, 6:473
capitalized cash flow method (CCM), 4:288n.3, 569, 575–577
capitalized income method, 4:570
capital market expectations, 6:254
capital markets. see also Integrity of Capital Markets [Standard of Professional Conduct II]
and benefit of ethics to society, 1:12
perfect, 3:95, 135, 147
sustainability of, 1:12–13
capital mobility, monetary/fiscal policy and, 1:586–587, 590–591
capital per worker, 1:623
capital position, 2:222–223
capital ratio
estimated sensitivities of, 2:262–263
for insurance company analysis, 2:273
capital rationing, 3:10, 40–42
capital requirement, 2:219, 222, 280
capital returns, 6:58
capital structure, 3:93–123
and acquisitions, 3:291
analysis of, 2:385–386
capital structure decisions, 3:94–108
changing, 4:286
defined, 3:94
and forecasting free cash flows, 4:317–320
importance of, 4:39–94
and long-term growth rates, 6:110–111
and modeling financing expenses, 4:127
Nestlé, 2:385–386
practical issues, 3:109–115
debt ratings, 3:109–110
valuating capital structure policy, 3:110–111
and leverage in international setting, 3:111–115
practice problems, 3:117–121
projections of, 4:133
solutions to problems, 3:122–123
and stock dividends, 3:132
in valuation of REIT stocks, 6:104
capital structure decisions, 3:94–108
agency costs, 3:104–105
costs of asymmetric information, 3:105
capital returns attribution with, 294–296
carry arbitrage
in bond market, 5:335
defined, 5:315
and earnings management, 5:316, 336
carry arbitrage model
defined, 5:308
forward contracts, 5:309–343
carry arbitrage model for futures vs., 5:342–343
currency forwards, 5:338–342
equity forwards, 5:322–324
fixed-income forwards, 5:333–334, 337–338
generic no-arbitrage forwards, 5:311–321
interest rate forwards, 5:324–333
pricing and valuation notation, 5:309–311
futures contracts, 5:322–343
carry arbitrage model for forwards vs., 5:342–343
currency futures, 5:338
equity futures, 5:322
fixed-income futures, 5:333–337
interest rate futures, 5:324–325
pricing and valuation notation, 5:309–311
swap contracts, 5:343–361
currency swaps, 5:349–356
equity swaps, 5:356–361
interest rate swaps, 5:345–349
receive-fixed pay-floating swaps, 5:344–345
receive-floating pay-fixed swaps, 5:343–344
with underlying cash flows, 5:318–321
without underlying cash flows, 5:311–318
cash flows for financed position in underlying, 5:312–313
cash flows for financed position in underlying combined with forward contract, 5:313–341
cash flows related to carrying underlying, 5:311–312
cash flows with forward market price too high, 5:314–315
Index

cash flows with forward market price too low, 5:315–316
value of long forward position, 5:317–318
carry benefits (γ)
BSM model with, 5:317, 408
carry arbitrage model with, 5:318–321
with currency options, 5:410
defined, 5:318
for equity forwards, 5:322–323
and forward prices, 5:343
carry costs (θ)
BSM model with, 5:408
carry arbitrage model with, 5:319–321
defined, 5:319
and forward prices, 5:343
carry trades, 1:572–575
defined, 1:572–573
example, 1:574–575
risks and rewards on, 1:573
types of, 5:23n.4
with US dollar and Turkish lira, 1:581–582
yen, 1:579–580
Carson, John, 1:711–712
CART: see classification and regression trees
carve-out, equity, 3:320
case studies (case examples)
Canadaco, 2:157–171
Capitol Shopping Center REIT Inc, 6:113–125
dividend discount model approach to valuation, 6:121–122
net asset value per share, 6:120–121
relative valuation, 6:119
selecting valuation method for, 6:122–125
earnings quality, 2:319–331
cost capitalization, 2:328–329
MicroStrategy, Inc, 2:324–326
revenue recognition, 2:320–326
Sunbeam Corporation, 2:320–324
WorldCom Corp., 2:328–329
ethical decision making
Subath Agarway, 1:212–216
Preston Partners, 1:220–224
Peter Sherman, 1:216–219
Edvard Stark, 1:208–212
Super Selection Investment Advisors, 2:224–228
Europa Venture Partners III, 6:161–164
long-term equity investment, 2:373–402
conclusions and recommendations, 2:401–402
data analysis, 2:374–401
data collection, 2:373
data processing, 2:374
follow-up, 2:402
purpose for analysis, 2:373
off-balance sheet leverage from operating leases, 2:403–406
conclusions and recommendations, 2:406
data analysis, 2:404–406
data collection, 2:403
data processing, 2:404
follow-up, 2:406
purpose for analysis, 2:403
cash as component of earnings, 2:313–314
and information ratio, 6:482
printing of, in Eurozone, 6:423n.24
risk weighting of, 2:221
synthetic, 5:456
cash-and-carry arbitrage model. see carry arbitrage model
cash available for distribution (CAD), 6:105. see also adjusted funds from operations (AFFO)
cash crops. see soft commodities
cash dividends
dividend reinvestment plans, 3:128
regular, 3:127–128
of Russell 1000 companies, 3:175
and share repurchase valuation, 3:167–169
stock dividends vs., 3:132
cash flow(s)
3:8–10. see also free cash flow; price to cash flow (P/CF)
and accounting methods, 4:433
in arbitrage-free pricing and valuation, 5:308
capitalized cash flow method of valuation, 4:288n.3, 569, 575–577
for capital projects, 3:56
conventional, 3:9
and corporate restructuring, 3:320
DCF models
as absolute valuation model, 4:23–24
for equity valuation, 4:198
forecasted fundamentals and multiples in, 4:381
and free cash flows, 4:284
residual income model vs., 4:512
and valuation based on forecasted fundamentals, 4:395–398
discounted cash flow analysis, 3:303–309
discounted cash flow method of valuation
of developing terminal value, 4:167
expectations approach vs., 5:384–385
perpetuity calculations, 4:168
for private companies, 4:569–570, 575
for private equity, 6:138, 144
for private real estate investments, 6:33–45
for publicly traded real estate securities, 6:111–113
terminal value, 4:167
valuation inputs, 4:182–183
discount rate selection, 4:92
earnings-plus-noncash-charges definition, 4:434
estimation with private company valuation, 4:567–569
in Europa Venture Partners III case study, 6:163
for FCFE and FCFF approach to free cash flow valuation, 4:285–286
for financed position in underlying, 5:312–314, 319–320
for fixed-income futures pricing, 5:335–336
with forward market price too high, 5:314–315
with forward market price too low, 5:315–316
for FRA pricing, 5:328–330
for FRA valuation, 5:331–332
future, 4:199–201; 6:381–383
income return vs., 6:59
incremental, 3:9, 35
in long-term equity investment case study, 2:395–399
in no-arbitrage approach to options valuation, 5:377
nominal, 3:37–38
nonconventional, 3:9
for offsetting long forward positions, 5:337, 341
operating
in equity valuation, 4:19
free, 6:433
of Nestlé, 2:398–399
net income and, 2:314–318
overstatement of, 2:230
and price-to-cash flow, 4:432
quality of, 2:333–334
reclassification of, 2:298
path-dependent, 5:100
and post-employment benefits, 2:101–102
in present value models, 4:201–207
present value of, 6:44
from probabilistic risk assessment approaches, 1:531–532
real, 3:37–38
from real estate, 6:452–453
receive-fixed, pay-floating, 5:346
receive-floating, pay-fixed, 5:346
reinvesting of, 6:111
at settlement date, 1:554
from simulations, 1:529–530
simulations with constraints on, 1:528
for swaps contracts, 5:345–346
currency swaps, 5:350–351, 355, 450–451
for receive-fixed swaps, 5:346, 348
terminal year incremental after-tax non-operating, 3:35
trailing price to cash flow, 4:434
underlying
carry arbitrage model with, 5:318–321
carry arbitrage model without, 5:311–318
for valuation of long forward position, 5:317
cash-flow-at-risk model, 2:189–190
cash flow from operations (CFO), 4:204n.10
adjusting, 4:301–306, 314–315
FCFE from, 4:301–306
FCFF from, 4:293–295, 301–306
and free cash flow, 1:370–372, 4:285
and net income, 1:280–281
and price to cash flow, 4:432, 434
cash flow patterns, IRR vs. NPV and, 3:18–20
cash flow projections, 3:27–38
depreciation, 3:31–34
and effects of inflation on analysis, 3:37–38
equation format, 3:29–31
for replacement projects, 3:34–35
spreadsheet modeling, 3:36–37
table format, 3:27–29
centurytel, 4:402–404, 458
CEOs. see chief executive officers
CEP. see chief executive officers
Ceres, 4:17
certainty-equivalent method, 3:49n.12
Certificate in Investment Performance Measurement (CIPM) certificants, 1:9
CFA charterholders, 1:171
CFA designation, 1:171, 172. see also Reference to CFA Institute, Designation and Program [Standard VII(B)]
guidance on using, 1:171, 172
order of professional and academic designations with, 1:174
right to use, 1:173
stating facts about, 1:174
CFA examinations, 1:5
bringing written material into exam room, 1:167
confidential information in, 1:165–166
expressing opinions about, 1:166
grading guidelines and results for, 1:169
passing, in consecutive years, 1:173
sharing content of, 1:168–169
sharing questions from, 1:167
writing after exam period, 1:168
CFA Institute. see also specific committees and programs
comprising integrity of, 1:169
ethical commitment of, 1:14–15
and ethics, 1:11, 12
mission of, 1:7
referring to (see Reference to CFA Institute, Designation and Program [Standard VII(B)])
on valuation process, 1:16
values of, 1:15
website, 1:15, 129
website of, 1:23
CFA Institute Investment Foundations certificate program, 1:8
CFA members and candidates
knowledge of the law [Standard I(A)], 1:26
responsibilities of (see Responsibilities as a CFA Institute Member or CFA Candidate [Standard of Professional Conduct VII])
CFA Program. see also Reference to CFA Institute, Designation and Program [Standard VII(B)]
conduct restrictions for candidates and members, 1:166, 167
confidential information about, 1:165–166
stating facts about, 1:174
testing policies for, 1:167
CFO. see cash flow from operations
CF/P. see cash flow yield
CFTC. see Commodity Futures Trading Commission
chain rule of forecasting, 1:453
chairman of board of directors, 3:237–238
Chamber of Commerce v. SEC, 1:719n.23
change-of-control events, put options for, 5:169
changes in exchange rates, 1:557
fund mandate, 1:142
to investment process, 1:142–144
uncovered interest rate parity in terms of, 1:560
Channel Islands, 6:142
channel stuffing, 2:299, 320
Chanos, James, 2:290, 311, 358
Chaplin's, 6:155n.8
Charles Schwab Corporation, 4:424
Chartered Financial Analyst. see entries beginning CFA
cheapest-to-deliver obligation, 5:269–270
Chevron Corporation, 4:254, 271
M&As for growth, 3:283
net income of ExxonMobil and, 2:181–183
translation methods, 2:177
Chi-square values, 1:738
Chicago Board Options Exchange, 5:456
Chicago Board Options Volatility Index (VIX), 5:430–431
Chicago Mercantile Exchange (CME) and commodities futures, 6:205, 207
and contango, 6:210
chief executive officers (CEOs)
agency problems for, 3:207–210
agency relationships of, 3:206–207
on boards of directors, 3:222
pay for, 3:208–209
child orders, 6:535
Chile, 1:588; 2:219
China
Basel Committee membership, 2:218
cash dividends paid, 3:127
cognac industry, 4:170
commodity exchanges, 6:207
conglomerates in China, 1:682
current account surplus and exchange rates, 1:579
economic growth, 1:654, 656–658, 679–680
education spending, 1:624
exports, 1:681; 2:130
foreign direct investment in, 1:681
gold and, 6:195
ICT capital and investment in GDP, 1:647, 648
index-linked bonds, 6:396
labor and total factor productivity, 1:651–652
labor supply, 1:641
mergers and acquisitions, 1:347–348
natural resources, 1:640
online payment companies, 2:216
openness of economy, 1:681
population growth, 1:642
private real estate valuation, 6:57
R&D expenditures, 1:650
real default-free interest rates, 6:393
real estate operating companies, 6:97
real GDP per capita, 1:621, 623, 677
REIT-type legislation, 6:83
revenue analysis, 4:109–111
Index I-15

steady state of growth in, 1:661–662
stock dividends, 3:131
China Banking Regulatory Commission, 2:218
China Insurance Regulatory Commission, 2:220
China Vanke, 6:97
Chinese yuan, 5:157, 8:189, 190
cigarette products, taxes and regulation on, 1:721
CIPM certificants, see Certificate in Investment Performance Measurement certificants
CIR model, see Cox–Ingersoll–Ross model
Cisco Systems, 1:497, 499–500
Citigroup, Inc., see Certificate
Citigroup
Citigroup, Inc.
CME Group, 2:220
CME
Coca-Cola
Coca-Cola Bottling Company
Coca-Cola Bottling Company Consolidated, 4:202–204
Coca-Cola Bottling Company Consolidated, 4:202–204
CoCos. see collateralized loan obligations
co-investment provisions, 4:485–488
co-location (co-lo), 6:359
collateralized debt obligations (CDOs), 5:293, 6:142
collateralized loan obligations (CLOs), 6:142
collateralized mortgage-backed securities (CMBS), 1:724
collateral pools, 5:248, 251
collateral return, 6:221–222
collinearity multi-, 1:359–362
perfect, 1:335n.14, 359–360
co-location (co-lo), 6:539
Colspan Ltd., 4:459–460
combinations, option, 5:473, 481–483
combined ratio, 2:266–267, 269
combined ratio after dividends, 2:269
Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission), 2:218
commerce, regulation of, 1:713–716
commercial banks, 2:215–216
commercial code, in IOSCO framework, 1:713–714
commercial mortgage-backed securities (CMBS), 5:248, 6:80

on inside information, 4:16
notification of, 1:114
and Professional Conduct Program, 1:9–10
research reporting requirements in, 4:36–37
and Standards of Practice Council, 1:10–11
in Standards of Practice Handbook, 1:3, 5–7, 14
text of, 1:15–16
and values of CFA Institute, 1:15
codes of ethics (in general)
among, 1:120
commitment to, 1:14
developing, 1:26–27, 54
and moral courage, 3:220
organizational culture in, 3:223
coefficient of determination (R^2), adjusted, 1:343–344
for linear regression with one variable, 1:295–297
model selection based on, 1:464
and multicollinearity, 1:360, 361
multiple, 1:332
coffee, 6:202–203
cognac industry, 4:170–171. see also Rémy Cointreau Group
COGS. see cost of goods sold
cointegrated unit roots, 1:485–488
co-investment provisions, 6:156
Colgate-Palmolive Company (Colgate)
effective tax rate reconciliation, 2:184–186
operational cost structure of L’Oreal vs., 4:120, 121
share repurchases, 4:415–416
collars on existing holdings, 5:471–472
risks with, 5:472–473
same-strike, 5:472
strategies using, 5:470–473, 490
collateralized debt obligations (CDOs), 5:293, 6:142
collateralized loan obligations (CLOs), 6:142
collateralized mortgage-backed securities (CMBS), 1:724
collateral pools, 5:248, 251
collateral return, 6:221–222
collinearity multi-, 1:359–362
perfect, 1:335n.14, 359–360
co-location (co-lo), 6:539
Colorpak Ltd., 4:459–460
combinations, option, 5:473, 481–483
combined ratio, 2:266–267, 269
combined ratio after dividends, 2:269
Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission), 2:218
commerce, regulation of, 1:713–716
commercial banks, 2:215–216
commercial code, in IOSCO framework, 1:713–714
commercial mortgage-backed securities (CMBS), 5:248, 6:80
commercial real estate
defined, 6:11
economic value, 6:21–22
industrial and warehouse properties, 6:20
multi-family properties, 6:21
office properties, 6:19–20
in portfolio, 6:79–80
retail properties, 6:20–21
types of, 6:19–22
valuation of, 6:22–54, 452–457
appraisals in, 6:22–25
and business cycles, 6:455–457
cost approach, 6:46–51
and highest and best use value, 6:26–27
income approach, 6:27–46
international, 6:56–57
market value, 6:23–25
overview of approaches, 6:25–27
pricing formula, 6:453–455
reconciliation of, 6:53–54
regular cash flows from real estate, 6:452–453
sales comparison approach, 6:51–53
commercial real estate (CRE) loans, 2:221; 5:248
commissions, 1:78–80
Committee of European Securities Regulators, 5:37
commodities, 6:189–241
about, 6:190
carry costs with, 5:319
defined, 6:190
life cycle, 6:196–203
coffee, 6:202–203
energy, 6:197–199
gas, 6:391
grains, 6:201–202
industrial/precious metals, 6:199–200
livestock, 6:200–201
soys (cash crops), 6:202–203
practice problems, 6:237–239
probabilistic approaches for companies in, 1:532
sectors, 6:191–196
energy, 6:191–193
gas, 6:194
industrial (base) metals, 6:194
livestock, 6:194–195
precious metals, 6:195
soys (cash crops), 6:195–196
solutions to problems, 6:240–241
valuation of, 6:203–205
Commodities Research Bureau, 6:233
commodity derivative contracts, 6:203
commodity futures indexes, 6:230–234
Bloomberg Commodity Index (BCOM), 6:230–232
Deutsche Bank Liquid Commodity Index (DBLCl), 6:230–232
key characteristics, 6:230–232
rebalancing frequency, 6:233
Rogers International Commodity Index (RICl), 6:230–233
S&P GSCI, 6:230–232
summary, 6:233–234
Thomson Reuters/CoreCommodity CRB Index (TR/CC CRB), 6:230, 231, 233
commodity futures markets, 6:190, 205–225
futures returns, 6:213–225
components of, 6:219–225
theories of, 6:213–217, 213–219
market participants, 6:205–208
commodity exchanges, 6:207
commodity hedges, 6:206
commodity investors, 6:207
commodity market analysts, 6:207
commodity regulators, 6:208
commodity traders, 6:207
spot and futures pricing, 6:208–213
Commodity Futures Trading Commission (CFTC), 6:208
commodity hedging, 6:216
commodity sectors, 6:191–196
energy, 6:191–193
crude oil, 6:191–193
natural gas, 6:193
refined products, 6:193
grains, 6:194
industrial (base) metals, 6:194
livestock, 6:194–195
precious metals, 6:195
soys (cash crops), 6:195–196
commodity swaps, 6:226–229
defined, 6:226
market participant structure, 6:226–227
Common Equity Tier 1 Capital, 2:221–222, 242–243, 262–263
cost approach, 4:140–141
common stock
required return for, 4:83–84
risk and return of convertible straight bonds vs., 5:173–175
communication(s)
different forms of, 1:139
to employees of material nonpublic information, 1:63
interdepartmental, 1:61
Communication with Clients and Prospective Clients [Standard V(B)], 1:137–146
Application of the standard, 1:141–146
and changes in investment objectives, 1:233–234
compliance procedures, 1:140–141
eleventh edition revision, 1:8
guidance, 1:138–140
different forms of communication, 1:139
facts vs. opinions in reports, 1:140
identifying risks and limitations, 1:139–140
informing clients of investment process, 1:138–139
report presentation, 1:140
text of, 1:18, 137–138
communities, as stakeholders, 3:202, 203, 205
community shopping centers, 6:92
company(-ies). see also real estate operating companies (REOCs)
acquiring, 3:280
closed-end investment, 4:587, 590
forecasting performance of, 4:111, 22–23
guideline, 4:379
insurance, 2:217; 3:300 (see also specific types)
neglected company effect, 1:398–399
in net asset value approach, 6:101
no-growth, 4:220–221
non-dividend-paying, 4:229–230
nonpublic, 4:77–79
online payment, 2:216
peer-company multiples for P/E, 4:401–405
public
beta estimation for, 4:73–77
independence and objectivity of, 1:33
valuation of private vs., 4:556–558
re-engineering of, 6:141
reinsurance, 2:217, 265, 268
residual income model for valuation, 4:503–504
similar, 6:143–144
size of, 4:557, 563
software, 1:521–522
target, 3:280, 303–314
technology, 1:532
terminal value of, 6:144, 171
tobacco, 3:213
company analysis. see financial forecasting
company costs, 4:151
company fundamental factors, 6:292
company law, in IOSCO framework, 1:713
company limited by shares (structure), 6:152
company models, 4:170–183
company overview, 4:171–172
industry overview, 4:170–171
pro forma balance sheet, 4:181–182
pro forma cash flow statements, 4:177–182
capital investment forecast, 4:178
depreciation forecast, 4:178
and forecasted balance sheet, 4:181–182
working capital forecast, 4:178–179
pro forma income statements, 4:172–177
corporate income tax, 4:177
cost of goods sold, 4:173
non-operating expenses, 4:176–177
operating profit, 4:175–176
revenue forecasts, 4:172–173
selling, general, and administrative costs, 4:173–175
valuation inputs, 4:182–183
company overview, 4:171–172
company promotion, 1:69
company sales, 4:147–149
company share-related factors, 6:292
company-specific factors
in bond valuation, 6:433
in forecast time horizon, 4:164
for private company valuation, 4:557–558
company strategy, sales and, 4:149
company value. see also private company valuation
dividend policy and company value, 
3:134–147
bird in the hand argument, 3:136
clientele effect, 3:137–141
controlling agency costs with dividends, 3:144–147
information content of dividend actions, 3:141–144
irrelevance of dividend policy, 3:135–136
summary, 3:147
tax argument, 3:136–137
irrelevance of capital structure decisions to, 3:94–96
in long-term equity investment case study, 2:399–401
ROIC and, 1:301–303
terminal, 6:144, 171
company-value model, 5:216–217, 242
comparability, analyst adjustments for, 4:390
comparable company analysis, 4:390
advantages, 3:312
disadvantages, 3:312
example, 3:310–312
comparables (comps), 4:379
comparables-based valuation
enterprise value to EBITDA, 4:344–346
for markets, 4:379–381
P/E, 4:398–410
Fed Model, 4:407–409
historical P/E of company as comparable, 4:409–410
industry and sector multiples, 4:405
overall market multiple, 4:405–409
peer-company multiples, 4:401–405
Yardeni model, 4:408
price to book value, 4:423–424
price to cash flow, 4:436
price to dividends, 4:438–439
price to sales, 4:430–431
for private equity, 6:143–144, 158–159
for real estate, 6:25–26, 51–52
in relative valuation models, 4:25, 26
with terminal price multiples, 4:413
comparable transaction analysis, 3:312–314
advantages, 3:314
disadvantages, 3:314
example, 3:313–314
comparative advantage, regulation of commerce and, 1:715–716
comparative multiple analysis, 6:118
compensation. see also Additional Compensation Arrangements
[Standard IV(B)]
for board of directors, 3:253
bonus, 1:116–117
and conflict of interest, 1:153–154
disclosure of, 1:77
and earnings normalization, 4:564
employee (see employee compensation) executive, 2:103–104
externally compensated assignments, 1:113
for managers, 3:243–245
notification of, 1:116–117
outside, 1:117
and research independence, 1:40
share-based employee, 4:10, 299, 559
compensation committee, 3:222, 243–245
compensation expenses, for stock options, 2:108
compensation reviews, 3:254
compete, 1:54
competition among banks, 2:240
with current employer, 1:112
noncompete agreements, 1:109
for private equity investments, 6:156
regulatory, 1:706–707
unfair, 1:715
competition law, in IOSCO framework, 1:714
Competitive Markets Authority (CMA), 1:282
competitive analysis, 4:112–15
competitive environment, industry costs in, 4:151
competitive forces, 4:136–145
for Anheuser-Busch InBev, 4:137–139
and financial forecasts, 4:136–145
and government regulation, 4:139
in Russian beer market, 4:140–144
competitive strategy, business context for valuation and, 4:13
compiled financial statements, 4:566
completeness, balance sheet, 2:343
complex event processing (CEP), 6:535, 538, 542, 543
compliance officers, 1:36
compliance procedures adequate, 1:119–121
adoption of, 1:120
education and training implementation, 1:121
inadequate, 1:124
and incentive structure, 1:122
as responsibility of supervisors, 1:120–121
compliance valuations, of private companies, 4:559–560
composite construction, 1:152
composite variables, 1:389
compound annual growth rate (CAGR), 4:157, 158
compounding annual, 5:340, 341
and arbitrage-free forwards, 5:312
continuous, 1:440, 5:321, 322, 340, 341
pricing currency forwards with, 5:340, 341
comprehensive income, 4:516, 521–525.
see also other comprehensive income (OCI)
Compustat, 4:73
Computer Associates, 3:210, 213
computerized trading. see algorithmic trading and high-frequency trading
concentration of funding, 2:233
Conceptual Framework for Financial Reporting, 2:292n.3
conclusions
of equity valuation process, 4:111, 31–33
of financial statement analysis, 2:401–402, 406
research report, 4:36
Condit, Phil, 3:206
conditional convergence, 1:674–675
conditional heteroskedasticity, 1:352–354
autoregressive models for time-series analysis with, 1:481–484
Breusch–Pagan test for, 1:352–354
conditional probabilities of default, 5:205
conditional VaR (CVar), 6:336–337
Conduct as Participants in CFA Institute Programs [Standard VII(A)], 1:165–169
application of the standard, 1:167–169
eleventh edition revision, 1:8
guidance, 1:165–167
additional CFA restrictions, 1:166, 167
confidential program information, 1:165–166
expressing opinions, 1:166
text of, 1:19, 165
confidence intervals, regression analysis, 1:297–298
confidence risk, 4:84, 6:301, 302
confidential information
about CFA program, 1:165–166
accidental disclosure of, 1:104–105
of firm, 1:115
intentional disclosure of, 1:103–104
possessing, 1:103
confidentiality. see also Preservation of Confidentiality [Standard III(E)]
of CFA program information, 1:165–166
maintaining, 1:78
of private equity funds, 6:155
confirmations of transactions, duplicate, 1:160
conflicts
director–shareholder, 3:233–234
of IRR and NPV, 3:18–22
manager–shareholder, 3:231–233
conflicts of interest
for boards of directors, 3:252–253
and business relationships, 1:152, 156
and business stock ownership, 1:152
and compensation arrangement, 1:153–154
directorship, 1:154–155
disclosure of, 1:77 (see also Disclosure of Conflicts [Standard VII(A)])
with equity REITs, 6:88
and personal stock ownership, 1:153
and personal trading, 1:155
and priority of transactions, 1:157
Regulations for, 1:709–710
and requested favors, 1:155
Index

contractual restrictions, on dividend policy, 3:153
corporate board seats, for private equity firms, 6:143
corporate bonds
benchmark bonds vs., 5:234–235
in credit risk modeling, 5:202
credit spread calculations with, 5:236–238
credit spreads for, 6:427–431
fair value calculations, 5:239–240
historic rates of default on, 5:212–213
probability of default calculations, 5:240
recovery rate calculations, 5:240
and stock returns, 1:279
transition matrices for, 5:214
valuation of, in arbitrage-free framework, 5:223–227
corporate culture, 1:12; 2:239–240
corporate events, evaluating, 4:9
corporate governance, 3:201–210, 225–275
group dynamics, 3:197–200
agency relationships, 3:206–210, 230–234
agency problems for CEOs, 3:207–210
director–shareholder conflicts, 3:233–234
information asymmetry, 3:207–208
manager–shareholder conflicts, 3:251–253
principal–agent relationships, 3:206–207
defined, 3:226
ensuring ethical behavior with, 3:222
ESG risk exposures, 3:244–246
board of directors, 3:235–238
examples, 3:248–260
forms of business, 3:227–230
partnerships, 3:229
sole proprietorships, 3:228–229
objectives and guiding principles, 3:227
practice problems, 3:266–272
for private equity funds, 6:154–156
solutions to problems, 3:273–275
stakeholders and corporate performance, 3:202–206
profitability and profit growth, 3:204–206
role of stockholders, 3:203–204
stakeholder impact analysis, 3:203
valuation implications, 3:262–263


The Corporate Governance of Listed Companies (CFA Institute), 3:235–236
corporate income tax, 4:128–131, 177
corporate insiders, regulations for, 1:709, 710
corporate investments, categories of, 2:9
corporate loans
and loan losses, 2:251–252
risk weighting of, 2:221
corn (maize), 6:194, 197
corporate performance
and CEO pay, 3:208–209
and stakeholders, 3:202–206
profitability and profit growth, 3:204–206
role of stockholders, 3:203–204
stakeholder impact analysis, 3:203
corporate raiders, 3:282
corporate restructuring, 3:319–320
corporate sustainability reports (CSRs), 4:17

corn, 6:194

Cumulative_Ind_L2 19

June 14, 2018 9:39 PM
cost approach
flotation, 3:136, 152–153
funding, 1:723–724
health care, 2:95–97
implementation, 1:718–719
industry, 4:150–151
in-process R&D, 2:55–56
input, 4:145–153
at Carrefour SA, 4:149–150
and company costs, 4:151
and company sales, 4:147–149
and industry costs, 4:151
and industry sales, 4:145–147
at Nestlé and Lindt, 4:151–153
investment, in excess of book value, 2:27–28
investment vehicle fund setup, 6:157
line, 2:232
of mimicking, 3:142
monitoring, 3:104
operating, 4:114–126
opportunity, 3:9, 42, 57; 4:205
overhead, 3:56; 4:120
periodic pension
and actuarial gains/losses, 2:83
for DB pension plans, 2:82–85
on income statements, 2:98–101
as other comprehensive income, 2:98
total, 2:98
re-leasing, 6:90
replacement, 6:46–49, 139
replicating strategy, 5:406
reproduction, 6:6n.13
research and development, 2:55–56
restructuring, 2:56, 303–304
sunk, 1:715; 3:9, 57
transaction, 6:10, 157, 255
unintended, 1:719
variable, 4:114, 156–157
cost of capital, see also weighted average
cost of capital (WACC)
in capital budgeting, 3:9
and financial leverage, 3:108
for private real estate equity
investments, 6:15, 144
and residual income, 4:493–494
cost-of-carry arbitrage model, see carry
arbitrage model
cost of debt
after-tax, 3:101–102
and relative debt availability, 4:571
and required rate of return, 4:54
cost of equity
agency, 3:104
effect of financial leverage on, 3:96–98
effect of taxes on, 3:102
private equity, 6:157
and required rate of return, 4:54
cost of equity capital, 4:493–494
cost of goods sold (COGS), 4:117–119, 173
cost of inventory, average, 2:152
cost projections, 4:150–153
company costs and inflation/deflation, 4:151–153
industry costs and inflation/deflation, 4:150–151
and input costs, 4:151–153
counterparties, 1:541; 5:325
counterparty risk, 2:226; 5:449
country equity markets, 6:475
country factors, 6:293
country risk, in private equity valuation, 6:140
country risk rating model, 4:90; 6:140n.1
country spread model, 4:90; 6:140n.1
coupon bonds, 6:402–425
default-free nominal coupon-paying bonds, 6:402–425
developed country governments, 6:410–413
influences on short-term default-free interest rates, 6:409
pricing formula, 6:402–403
short-term nominal interest rates and business cycles, 6:803
T-bill rates and business cycles, 6:404–409
yield curves and business cycles, 6:413–425
fixed-, 5:123
floating-
capped, 5:161–166
fixed- vs., 5:123
floored, 5:163–166
ratcheted, 5:162–163
zero-
break-even inflation rates for, 6:410
calculating forward rates on, 5:9–10
credit valuation adjustment for, 5:204–208
current forward curve and spot rates for, 5:21–22
negative key rate durations for, 5:157
pathwise valuation of, 5:98
and spot curve, 5:7
swap curve in valuation of, 5:26–27
viewing securities as, 5:79
covered bonds, as securitized debt, 5:250–251
applications, 5:487–490
and cash-secured puts, 5:468–469
and collars, 5:470–473
defined, 5:459
investment objectives of, 5:459–464
position equivalence for, 5:468
profit and loss at expiration, 5:462–464
risk with, 5:470
covered interest rate parity
for currency derivative contracts, 5:338
equation, 1:550
in exchange rate determination, 1:558
and international parity conditions, 1:570
in prediction of spot rates, 1:560–564
Cox–Ingersoll–Ross (CIR) model, 5:39–41
CPECs, see convertible preferred equity
certificates
CPI, see US Consumer Price Index
CPIENG, see US Consumer Price Index
for Energy
CPI-U, see US Consumer Price Index for
All Urban Consumers
Craft Brew Alliance, Inc., 4:391
crash risk, with FX carry trades, 1:574
crawling peg exchange rate regime, 1:579
credit analysis, 5:201–266
about, 5:201–202
analysis of credit risk, 5:208–210
credit ratings, 5:212–215
credit risk measures, 5:202–204
credit scoring, 5:210–212
credit spreads, 5:234–247
interpreting changes in, 5:234–240
term structure of, 5:240–247
credit valuation adjustment, 5:204–208
practice problems, 5:253–257

reduced-form models, 5:216–219
for securitized debt, 5:247–251
solutions to problems, 5:258–266
structural models, 5:216–219
valuation of risky bonds in arbitrage-free framework, 5:219–234
binomial interest tree for, 5:219–221
corporate bonds, 5:223–227
floating-rate notes, 5:227–234
government bonds, 5:221–222
credit cards, 5:248
credit cooperatives, 2:216
credit correlation, 5:270
credit crisis (2008–2009), 6:111
credit curve, 5:240–247, 281–282
credit default swaps (CDS), 5:267–302
applications, 5:286–293
basis trading, 5:291–293
managing credit exposure, 5:287–291
credit derivatives, 5:267–268
credit events, 5:272–273
defined, 5:268
features of, 5:270–272
index, 5:270, 274–275
practice problems, 5:295–299
pricing, 5:277–286
basic concepts, 5:278–281
conventions in, 5:282–284
credit curve, 5:281–282
monetizing gains and losses, 5:285–286
settlement protocols, 5:273–274
solutions to problems, 5:300–302
succession events, 5:273
types of, 5:269–270
valuation of, 5:284–285
credit default swaps (CDS) market bond vs., 5:291–292
characteristics of, 5:276–277
governing body for, 5:270
credit derivatives, 5:267–268, 276
credit events, 5:268, 272–273
credit exposure, 5:287–291
credit-linked notes, 5:248
credit losses, provisions for, 2:253
credit migration, 5:215, 237
creditors, 2:202, 205
credit protection buyer, 5:268–269, 271–272
credit protection seller, 5:268–269
credit quality of assets, 2:226–228
industrial sector and, 6:431–432
in term structure of credit spreads, 5:241–242
credit rating agencies. see also specific agencies
debt ratings by, 3:109
opinions of, 1:33–34
regulatory activities by, 1:703, 724–725
use of potential GDP, 1:631
credit ratings, 5:212–215, 6:433
credit risk
analysis of, 5:208–210
with CDS, 5:276
currency exchange rates and, 1:543, 554
default risk vs., 5:202
measures of, 5:202–204
sovereign, 6:433–436
credit risk premiums (credit premiums) bonds with, 6:425–437
company-specific factors for, 6:433
credit spreads and credit risk premiums, 6:427–431
government bonds as, 6:425–426
industrial sectors and credit quality, 6:431–432
influences on credit premiums, 6:436–437
pricing formula for, 6:426
and sovereign credit risk, 6:433–436
and credit spreads, 6:427–431
defined, 6:426
government bonds with, 6:425–426
influences on, 6:436–437
for Royal Bank of Scotland, 6:436
credit scoring, 5:210–212
credit spread duration, 6:353n.18
credit spreads, 5:234–247, 473
for banking and airline sector, 6:432
calculation of, 5:206, 224
and convertible bond valuation, 5:175
for credit default swaps, 5:281–285
and credit risk premiums, 6:427–431
defined, 5:202
interpreting changes in, 5:234–240
migration of, 5:215
term structure of, 5:240–247
and transition matrices, 5:214
credit unions, 2:216
credit valuation adjustment (CVA) in calculations of credit spreads, 5:236–238
for corporate bonds, 5:223–227
in credit analysis, 5:204–208
example of, 5:209
for floating-rate notes, 5:229
CRE loans. see commercial real estate loans
critical value, for hypothesis testing, 1:298
cross-border mergers and acquisitions, 1:3286–287
clients, 3:287
government policy, 3:286
market imperfections, 3:286
product differentiation, 3:287
technology transfer, 3:287
cross-border trading, 6:542
cross-departmental conflicts, 1:151
cross-rate bids, arbitrage constraints on, 1:544–546
cross-sectional data defining probability distributions based on, 1:521–522
regression analysis of, 1:286, 335
cross-sectional dependence, 6:514
cross-sectional regression, for P/E, 4:397–398
cross-validation, 1:391
crown jewel defense, 3:297
crude oil, 6:191–193
hedging by refiners, 6:226–227
life cycle as commodity, 6:197–198
refined products, 6:193
and Theory of Storage, 6:216
cryptocurrencies, 1:256
cryptography, 1:254
Crystal Ball”, 1:526n.6
CSRs. see corporate sustainability reports
culture
corporate, 1:12; 2:239–240
organizational, 3:215, 220
cumulative abnormal returns, 1:347–348
cumulative probabilities for standard normal distribution, 1:735–736
curable physical deterioration, 6:46
currency-ies). see also entries beginning foreign currency base, 1:541, 550
digital, 1:256
domestic currency designation, 1:541n.1
foreign currency designation, 1:541n.1
functional, 1:213, 149–154
funding, 1:572
high-yield, 1:572–573, 582
local, 2:131
low-yield, 1:572–573
presentation, 2:131, 151–154
price, 1:541, 550
triangular arbitrage among, 1:544–546
currency codes, 1:605
currency crises capital flows in, 1:580
exchange rates in, 1:596–600
currency exchange rates, 1:539–618; 2:241–242, see also current rate method; monetary/nonmonetary method
and balance of payments, 1:576–585
capital flows, 1:579–585
current account imbalances, 1:576–579
carry trade strategies, 1:572–575
changes in, 2:167–172
correlations of, 1:275–277
and cross-country comparisons of GDP, 1:622
currency codes, 1:605
currency crises, 1:596–600
exchange rate management, 1:593–595
forecasting, 1:540
foreign exchange markets, 1:540–556
conventions in, 1:540–543
forward, 1:548–556
spot exchange rate quotes in, 1:544–548
historical, 2:145
long-term framework for, 1:556–572
international parity conditions, 1:557–572
terminology, 1:556–557
monetary approach to, 1:587–588
and monetary policy, 1:585–592
example of, 1:588–590
historical relationship, 1:588
Mundell–Fleming model, 1:585–587
portfolio balance approach, 1:590–591
practice problems, 1:606–613
quoting, 5:410
as random walks, 1:462–464
required return on equity and, 4:89
solutions to problems, 1:614–618
currency exchange rates (Continued) spot and arbitrage, 1:544–548
in foreign exchange market, 1:541
in forward exchange rate quotes, 1:551–552
and forward exchange rates/interest rates, 1:570–572
forward rates vs., 1:549–552
predictors of future, 1:560–564
of US dollar and Turkish lira, 2:155–157
currency forwards, 5:338–342
in derivatives strategies, 5:492
and foreign exchange transaction risk, 2:143
hedging with currency futures vs., 5:451n.8
pricing, 5:338–341
valuation, 5:341–342
currency futures, 5:450–452
in derivatives strategies, 5:450–452
pricing and valuation, 5:338
currency options
BSM model for, 5:410–411
and foreign exchange transaction risk, 2:143
position equivalences for, 5:457–458
two-period binomial model for, 5:398
currency pairs, 1:541n.1, 542. see also under specific currencies
currency spot exchange rate, future value of, 5:339
currency swaps, 5:349–356
about, 5:349–350
with bond hedges, 5:350–352, 355
cash flows for, 5:350–351
defined, 5:349
in derivatives strategies, 5:450–451
pricing, 5:350–354
synthetic floating-rate bonds for, 5:345
current account, 1:576–579
current income, capital gains vs., 3:152
current P/E. see trailing P/E
current period values, in autoregressive model, 1:447–448
current rate method
analytical issues, 2:160–163, 167–169
defined, 2:145
effect of currency exchange rate movement on financial statements, 2:172
and temporal method, 2:176–177
translating assets and liabilities with, 2:145–146
translating foreign currency financial statements with, 2:148, 149
current ratio, 2:280
currency, yield curve, 5:47, 6:416, 417
curve duration, 5:151
curve risk, 6:358–359
curve trade, CDS, 5:290
custodial relationships, 1:32
custody of client assets, 1:74
customers (buyers)
bargaining power of, 4:137–139, 171
in beer markets, 4:138, 139
in industry structure, 4:13
as stakeholders, 3:202, 205
CVA. see credit valuation adjustment CVaR. see conditional VaR
cyclical businesses, 4:388
cyclical equities
business cycle and earnings for, 1:551–552
equity premiums for, 6:450–451
cyclicality, industry, 4:163–164
Czech Republic, 3:256n.18
D
Daimler AG, 3:179
Dalian Commodity Exchange, 6:207
Danone, 4:119
dark pools, 6:547
Darwinian trading, 6:538
data analysis
long-term equity investment case study, 2:374–401
accruals and earnings quality, 2:395–396
asset base composition, 2:384–385
capital allocation, 2:387–392
capital structure analysis, 2:385–386
cash flow relationships, 2:396–399
company valuation, 2:399–401
DuPont analysis, 2:374–385
segment analysis, 2:386–387
off-balance sheet leverage from operating leases case study, 2:404–406
data analytics, 1:379–380
databases, data science, 1:249
data capture, 1:247
data classification, 1:379
data collection, for financial statement analysis, 2:373, 403
data curation, 2:373
data processing
for financial statement analysis, 2:374, 404
methods of, 1:247
data science, 1:247–249
datasets, fintech analysis of, 1:240
data storage, 1:247
data visualization, 1:247–248
day count convention, 1:549
days sales outstanding (DSO)
and earnings quality, 2:327
modeling working capital accounts with, 4:132
at Sunbeam, 2:321–323
days sales receivable index (DSR), 2:307
DBLCI. see Deutsche Bank Liquid Commodity Index
DB pension plans. see defined-benefit pension plans
DBS, 2:302
DC. see Determinations Committee
DCF analysis. see discounted cash flow analysis
DCF/FC notation, 5:338
DCF method of valuation. see discounted cash flow method of valuation
DCF models. see discounted cash flow models
DC pension plans. see defined-contribution pension plans
DDMs. see dividend discount models
dead-hand provision, 3:294
dealers
bid–offer currency prices, 1:541, 543
bid–offer spread for forward swaps, 6:442–444
as investment industry intermediaries, 2:216
swap, 6:226
death–put bonds, 5:125
debt spreads, 5:473
debt. see also collateralized debt obligations (CDOs) and benchmark bonds, 5:79
correlations of equity returns and, 1:278–279
cost of, 3:101–102; 4:54, 571
equivalent option interpretation of, 5:218
free operating cash flow/total debt ratio, 6:433
government, 4:60–63
market value of, 4:90–91, 287
from private real estate investments, 6:61–64
securitized, 5:247–251
sovereign, 5:79
subordinated debt holders, 6:430–431
total debt/total capital ratio, 6:433
debt availability, 4:571
debt capital, 6:10, 15
debt financing, value creation and, 6:142
debt investors, real estate, 6:7, 8
debt management, with ratchet bonds, 5:162–163
debt ratings, 3:109–110
debt ratio, 4:311
debt securities
accounting for investments in, 2:17–19
available-for-sale, 2:12
impairments for, 2:15–17
measurement of, 2:224
reclassification, 2:14
debt service, 6:62
debt service coverage ratio (DSCR), 6:62
debt sustainability channel, in current account, 1:578–579
deceit, 1:55
decision making
credit analysis in, 5:225–226
ethical considerations in, 3:215, 221
ethical framework for, 1:13–14
group, 1:129
simulations for, 1:526–527
strategic portfolio, 6:303
time frame for dissemination and, 1:84–85
decision rule, for NPV, 3:11
decisions
capital structure, 3:94–108
agency costs, 3:104–105
costs of asymmetric information, 3:105
costs of financial distress, 3:103–104
and financial leverage/cost of equity, 3:96–98
irrelevance to value, 3:94–96
and static trade-off theory, 3:106–108
and taxes, 3:98–103
Index

dividend vs. share repurchase, 3:169–177
and dilution from employee stock options, 3:170
example, 3:175–177
financial leverage, 3:170–173
managerial flexibility, 3:170
share price, 3:170
tax advantages, 3:170
investment
about commercial real estate, 6:454–455
exchange rate movements and, 1:576
execution of, 6:255
influence of, 6:513–514
market-based factors in, 4:460–461
investment decision criteria for capital budgeting, 3:10–27
average accounting rate of return, 3:15–16
internal rate of return, 3:11–12, 18–25
net present value, 3:10–11, 17–22
payback period, 3:13–19
popularity and use of capital budgeting methods, 3:25–27
profitability index, 3:16–17
decision trees
about, 1:553
for capital budgeting projects, 3:53
defined, 1:519
and risk-adjusted value, 1:529, 531, 532
scenario analysis vs., 1:530–531
simulations vs., 1:520, 530–531
decision-useful information, in financial reports, 2:292
deep learning, 1:246
deep learning nets, 1:246, 387
DeepMind, 1:246
DeepStack, 1:246
DEF 14A Form, 3:235, 237
default, 5:216
loss given, 5:279–280
for corporate bonds, 5:224
in credit risk modeling, 5:203
for floating-rate notes, 5:229, 230
for zero-coupon bonds, 5:205
probability of, 5:278–279
of asset-backed securities, 5:249
of corporate bonds, 5:224, 240
do credit ratings, 5:212, 237
in credit risk modeling, 5:203–204
credit spreads for bonds with high, 5:247
of floating-rate notes, 5:229, 230
in valuation of risky bonds, 5:146
of zero-coupon bonds, 5:205, 244–245
default-free bonds
discount rate and return from, 6:381
nominal coupon-paying, 6:402–425
conventional government bonds, 6:410–413
influences on short-term default-free interest rates, 6:409
pricing formula, 6:402–403
short-term nominal interest rates and business cycles, 6:403
t-Bill rates and business cycles, 6:404–409
yield curves and business cycles, 6:413–425
pricing of two-period, 6:389–390
real interest, 6:383–402
default-free interest rates and economic growth, 6:392–395
determination of real default-free interest rates, 6:384–392
real default-free interest rates and business cycles, 6:395–402
risk premium for, 6:420–423
valuation
callable bonds, 5:129–132, 137–140, 142–145
with interest rate volatility, 5:137–145
option-free bonds, 5:128–129
putable bonds, 5:130–132, 137–138, 140–145
at zero interest rate volatility, 5:129–132
zero-coupon, 6:410
default-free interest rates and business cycles, 6:395–402
determination of, 6:384–392
and inter-temporal rate of substitution, 6:384–388
and premiums on risky assets, 6:389–392
uncertainty and risk premiums in, 6:387–389
and economic growth, 6:392–395
influences on, 6:409
real, 6:384–392, 395–402
short-term, 6:409, 417
default-free nominal coupon-paying bonds, 6:402–425
conventional government bonds, 6:410–413
influences on short-term default-free interest rates, 6:409
pricing formula, 6:402–403
short-term nominal interest rates and business cycles, 6:403
t-Bill rates and business cycles, 6:404–409
yield curves and business cycles, 6:413–425
default-free yield curves and break-even inflation rates, 6:413–415
business cycle and spread of, 6:417–419
and business cycles, 6:413–425
and interest rates, 6:419–420
investor expectations and slope of, 6:417
in Japan, 6:424–425
level, slope, and curvature of, 6:415–417
and risk premium for default-free bonds, 6:420–423
spread of, 6:417–419
supply and demand factors influencing, 6:423
default intensity, 5:216
default rates, 6:428, 429
default risk, 5:202; 6:382. see also credit risk; risky bonds
default risk screen (DRSK), 5:242–243
default time, 5:216
defensive investments, 6:841
deferrred payoffs, 5:490n.8
deferred taxes, 4:298–299; 6:105
defined-benefit (DB) pension plans, 2:81–85
balance sheet presentation, 2:81–82
characteristics, 2:79
defined, 2:77–78; 6:249n.2
obligations, 2:79–80, 86–89
periodic pension cost, 2:82–85
return requirements and risk tolerance of, 6:261
risk measures of, 6:358
defined-contribution (DC) pension plans characteristics, 2:79
defined, 2:77
financial statement reporting for, 2:81
return requirements and risk tolerance of, 6:261
definition of value (term), 4:560–562
definitive merger agreement, 3:292
deflation, 4:145–153
cost projection effects, 4:150–153
sales projection effects, 4:145–150
company sales, 4:147–149
industry sales, 4:145–147
degrees of freedom
for hypothesis testing, 1:298
in multiple linear regression, 1:332
in standard error of estimate, 1:293
Delaware, 3:295n.7
delivery
fixed-income forwards and futures, 5:333
physical, 6:210–211
for sinking fund bonds, 5:126
Dell
code of ethics at, 3:220–221
IPO of, 3:203–204
Dell, Michael, 3:220
delta
option, 5:420–423; 6:340–341
position, 5:468, 470
delta approximation, 5:421–422
delta hedging, 5:420–421, 423
delta neutral portfolio, 5:421
delta neutral trading strategies, 6:536
delta-plus-gamma approximations, 5:424–425
demand
for commercial real estate, 6:19–21
credit spreads and, 5:242
in current account, 1:577
default-free yield curves and, 6:423
price elasticity of, 4:146, 147
and REITs, 6:94–95
demand-side estimates of equity risk premiums, 4:69n.35
DE Masterblenders, 5:205
demographic influences
on private real estate equity investments, 6:16
on real estate investment trusts, 6:93
denial-of-service attacks, 6:546
Denmark
active return and weights for equities, 6:500, 503, 504
GDP growth rate, 4:212
historical equity risk premium, 4:61, 63
OECD Principles, 3:256n.18
share repurchases, 3:161
departments, physical separation of, 1:61
dependent variables
defined, 1:286, 328
forecasting past values of, 1:374
improper treatment of, 1:372–373
lagged, 1:355–356, 373
in linear regression, 1:289–290, 334
linear trends in, 1:437
partial elasticity of, 1:367
predicting, in multiple linear regression model, 1:339–341
qualitative, 1:376–378
DEPI, see depreciation index
depositing, as arbitrageur strategy, 5:328–329
Depositary Trust and Clearinghouse Corporation, 5:277
Deposit Protection Fund (Bundesverband deutscher Banken), 2:220
deposits, 2:214–215
depreciated replacement cost, 6:46–49
depreciation, 3:31–34
accelerated, 3:31–34
of currencies, 1:560, 577, 578
EBITDA, 3:145
and funds from operations, 6:105
for physical deterioration, 6:46–49
on pro forma cash flow statements, 4:178
of real estate, 6:10
of segments, 2:391
and steady state of growth, 1:664
straight-line, 3:31, 32
depreciation index (DEPI), 2:307
derivatives (derivative contracts) accounting for, 2:258
applications of, 5:286
credit, 5:267–268, 276
and liquidity, 6:262
and valuation of commodities, 6:203
derivatives strategies, 5:447–504
about, 5:448
applications, 5:487–493
calendar spreads, 5:492
call options, 5:492
collars, 5:490
covered calls, 5:487–490
currency forwards, 5:492
equity swaps, 5:490
interest rate swaps, 5:492–493
put options, 5:491
straddles, 5:491–492
and breakeven price, 5:485–487
call options
long calls, 5:492
synthetic calls, 5:457
collars, 5:470–473, 490
on existing holdings, 5:471–472
risks with, 5:472–473
same-strike collars, 5:472
combinations, 5:473, 481–483
applications, 5:487–490
and cash-secured puts, 5:468–469
and collars, 5:470–473
defined, 5:459
investment objectives of, 5:459–464
position equivalence for, 5:468
profit and loss at expiration, 5:462–464
risk with, 5:470
exercise in, 5:483
forwards
currency, 5:492
synthetic assets with forwards, 5:456
futures
currency, 5:450–452
interest rate, 5:458–450
stock index, 5:453
synthetic assets with futures, 5:456
investment objectives of covered calls, 5:459–464
necessity of setting, 5:483–484
of protective puts, 5:464–468
long positions, 5:454–455
market risk with, 5:484–485
position equivalences, 5:454–459
for covered calls, 5:468
foreign currency options, 5:457–458
for protective puts, 5:468
synthetic assets with futures/ forwards, 5:456
synthetic call options, 5:457
synthetic long assets, 5:454–455
synthetic put options, 5:456–457
synthetic short assets, 5:455
practice problems, 5:495–500
protective puts, 5:459, 464–468, 473
and collars, 5:470–473
defined, 5:459
investment objectives of, 5:464–468
position equivalence for, 5:468
profit and loss at expiration for, 5:466–467
risk with, 5:470
put options, 5:491
cash-secured puts, 5:468–469
protective puts, 5:459, 464–468, 473
synthetic puts, 5:456–457
writing, 5:491
risk exposures, 5:448–454
currency futures, 5:450–452
currency swaps, 5:450–451
equity swaps, 5:452–453
interest rate futures, 5:448–450
interest rate swaps, 5:448–449
stock index futures, 5:453
short positions, 5:455–456
solutions to problems, 5:501–504
spreads, 5:473–481
bear spreads, 5:473, 475–476
bull spreads, 5:473–479
calendar spreads, 5:480–481, 492
refining, 5:476–479
risk with, 5:480
straddles, 5:481–483
analytical for, 5:486–487
applications, 5:491–492
defined, 5:473
swaps
currency swaps, 5:450–451
equity swaps, 5:452–453, 490
interest rate swaps, 5:448–449, 492–493
De Roon, Frans A., 6:214
descriptions of securities, 1:141–142
descriptive statistics, 3:312
detection procedures, 1:119–120
deterioration, physical, 6:46–49
determination, coefficient of. see coefficient of determination
Diversifications Committee (DC), 5:273
Deutsche Bundesbank (Central Bank of Germany), 2:218
Deutsche Bank
impairments at, 2:16–17
investments in associates/joint ventures, 2:25–27, 34
Deutsche Bank Liquid Commodity Index (DBLCI), 6:230–232
Deutschmarks, German, 1:580–581
Deutsche Postbank AG, 2:216
developed countries. see also advanced economies
carry trade returns for, 1:574
close with developing countries, 1:675–676
economic growth in developing countries vs., 1:620–628
for Argentina and Venezuela, 1:626–628
education and health care, 1:624–625
financial markets and intermediaries, 1:623–624
free trade and capital flows, 1:625–626
political stability, rule of law, and property rights, 1:624
savings and investment, 1:623
tax and regulatory systems, 1:625
ICT capital and investment in GDP, 1:647
sovereign credit risk in, 6:435
developing countries. see also emerging markets
classification, 1:622n.1
in convergence clubs, 1:675
convergence with advanced/developed countries, 1:675–676, 682
economic development strategies of, 1:680–681
economic growth in developed countries vs., 1:620–628
for Argentina and Venezuela, 1:626–628
education and health care, 1:624–625
financial markets and intermediaries, 1:623–624
free trade and capital flows, 1:625–626
political stability, rule of law, and property rights, 1:624
savings and investment, 1:623
tax and regulatory systems, 1:625
equity risk premium in, 4:66–67

Cumulative_IND_12 24
June 14, 2018 9:39 PM
Index

ICT capital and investment in GDP, 1647
jewelry demand in, 6:195
productivity in, 1:651–652
real default-free interest rates in, 6:393
real GDP growth and real GDP per capita, 1:621–623
development costs, 2:55–56
Dexia, 7:227–273
DIC Asset AG, 1:124
dickey–Fuller test for unit root, 465
3:23–234
education of, 3:254
independence of, 3:239
employment, 3:252, 253
qualifications of, 3:238–239, 249–250
selection of, 3:251
separate sessions of, 3:241
succession plans for, 3:253
Dictionary of Registered Investment Advisors (Standard & Poor’s), 6:248
direct ownership of, real estate, 6:6
direct writers of, insurance policies, 2:266
dirty-surplus accounting, 2:183
dirty-surplus items, 2:183
Disciplinary Review Committee (DRC), 1:9
disclosure
Basel III requirements, 2:242
compensation expenses and vesting for stock options, 2:108
confidential information, 1:103–105
conflicts of interest, 1:77
in corporate governance, 3:246–247, 258–259
discount window borrowers, 1:723–724
event-specific, 2:358
executive compensation, 2:103–104
gains and losses in foreign currency transactions, 2:138–143
intercorporate investment in associates, 2:34
interdepartmental referral arrangements, 1:163
investment system, 1:141, 143
issuer-paid research, 1:48
level of service, 1:86
material information, 1:60–61, 64
by multinational operations, 2:186–190
performance calculation methodology, 1:100–101
personnel hiring policies, 1:160
personal trading, 1:160, 161
possible illegal activity, 1:110
post-employment benefit, 2:92–102
assumptions, 2:93–97
cash flow information, 2:101–102
classification of periodic pension costs in P&L, 2:99–101
net pension liabilities/assets, 2:97
periodic pension costs in P&L vs. OCI, 2:98
total periodic pension costs, 2:98
US health care costs, 2:95–97
private equity fund, 6:155
pro forma income, 2:313
referral arrangements, 1:162–164
in regulation of financial market, 1:717–718
risk information, 2:350–351, 358
selective, 1:64, 86, 88
on social media, 1:89
trade allocation procedures, 1:86
translation methods for financial statements, 2:177–183
at Chevron Corporation, 2:181–183
at Exxon Mobil Corporation, 2:181–183
and net income, 2:182–183
at Yahoo! Inc., 2:178–181
Disclosure of Conflicts [Standard VI(A)], 1:149–156
application of the standard, 1:152–156
in case studies, 1:211–212, 215–216, 219, 226
compliance procedures, 1:152
guidance, 1:149–152
conflicts as a director, 1:151–152
cross-departmental conflicts, 1:151
disclosure to clients, 1:150–151
disclosure to employers, 1:150
stock ownership conflicts, 1:151
text of, 1:18, 149
Disclosure of Interests in Other Entities (IFRS 12), 2:110
discount borrowing windows, of central banks, 1:723–724
discounted abnormal earnings model, 4:496
discounted cash flow (DCF) analysis for capital projects with real options, 3:53
discounted cash flow (DCF) method of valuation
of developing terminal value, 4:167
expectations approach vs., 4:384–385
perpetuity calculations in, 4:168
for private companies, 4:569–570, 575
for private equity, 6:138, 144
for private real estate investments, 6:33–45
advanced DCF method, 6:41–45
discount rate and cap rate, 6:33
and equivalent yield, 6:40–41
and lease structure, 6:37–40
terminal capitalization rate, 6:34–36
for publicly traded real estate securities, 6:111–113
Capitol Shopping Center REIT Inc. case study, 6:121–122
direct capitalization method vs., 6:27
terminal capitalization rate, 6:111–113
Capitol Shopping Center REIT Inc. case study, 6:121–122
direct capitalization method vs., 6:27
terminal capitalization rate, 6:111–113
Capitol Shopping Center REIT Inc. case study, 6:121–122
direct capitalization method vs., 6:27
terminal capitalization rate, 6:111–113
Capitol Shopping Center REIT Inc. case study, 6:121–122
direct capitalization method vs., 6:27
terminal capitalization rate, 6:111–113
Capitol Shopping Center REIT Inc. case study, 6:121–122
direct capitalization method vs., 6:27
advantage of DCF model, 4:167
see also specific types, e.g. dividend discount model (DDM)
as absolute valuation model, 4:23–24
for equity valuation, 4:198
forecasted fundamentals and multiples in, 4:381
and free cash flows, 4:284
residual income model vs., 4:512
and valuation based on forecasted fundamentals, 4:395–398
<table>
<thead>
<tr>
<th>Discounted Dividend Valuation</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4:197–279</td>
<td></td>
</tr>
<tr>
<td>4:198–199</td>
<td></td>
</tr>
<tr>
<td>Corporate discount model, 4:207–210</td>
<td></td>
</tr>
<tr>
<td>Multiple holding periods, 4:208–210</td>
<td></td>
</tr>
<tr>
<td>Single holding period, 4:207–208</td>
<td></td>
</tr>
<tr>
<td>Gordon growth model, 4:210–225</td>
<td></td>
</tr>
<tr>
<td>Dividend growth, earnings growth, and value appreciation in, 4:217–218</td>
<td></td>
</tr>
<tr>
<td>Equation, 4:210–217</td>
<td></td>
</tr>
<tr>
<td>Estimating required return, 4:224–225</td>
<td></td>
</tr>
<tr>
<td>Examples, 4:212–217</td>
<td></td>
</tr>
<tr>
<td>Implied dividend growth rate, 4:219–220</td>
<td></td>
</tr>
<tr>
<td>With negative growth, 4:217</td>
<td></td>
</tr>
<tr>
<td>For noncallable fixed-rate perpetual preferred stock, 4:216–217</td>
<td></td>
</tr>
<tr>
<td>And present value of growth opportunities, 4:220–222</td>
<td></td>
</tr>
<tr>
<td>Price-to-earnings ratio, 4:222–224</td>
<td></td>
</tr>
<tr>
<td>And share repurchases, 4:218–219</td>
<td></td>
</tr>
<tr>
<td>Growth rates in, 4:241–247</td>
<td></td>
</tr>
<tr>
<td>Financial models and dividends, 4:246–247</td>
<td></td>
</tr>
<tr>
<td>And retention rate/ROE analysis, 4:243–246</td>
<td></td>
</tr>
<tr>
<td>Sustainable, 4:241–242</td>
<td></td>
</tr>
<tr>
<td>Multistage models, 4:225–240</td>
<td></td>
</tr>
<tr>
<td>H-model, 4:230–232</td>
<td></td>
</tr>
<tr>
<td>For non-dividend-paying companies, 4:229–230</td>
<td></td>
</tr>
<tr>
<td>Spreadsheet modeling, 4:237–238</td>
<td></td>
</tr>
<tr>
<td>Three-stage model, 4:232–237</td>
<td></td>
</tr>
<tr>
<td>Two-stage dividend discount model, 4:226–229</td>
<td></td>
</tr>
<tr>
<td>Practice problems, 4:251–266</td>
<td></td>
</tr>
<tr>
<td>Present value models, 4:199–207</td>
<td></td>
</tr>
<tr>
<td>For Coca-Cola Bottling Company and Hormel Foods, 4:202–204</td>
<td></td>
</tr>
<tr>
<td>Definitions of cash flows for, 4:201–207</td>
<td></td>
</tr>
<tr>
<td>Dividends in, 4:201–204</td>
<td></td>
</tr>
<tr>
<td>Free cash flows in, 4:204–205</td>
<td></td>
</tr>
<tr>
<td>For future cash flows, 4:199–201</td>
<td></td>
</tr>
<tr>
<td>Residual income in, 4:205–206</td>
<td></td>
</tr>
<tr>
<td>Required return from, 4:239–240</td>
<td></td>
</tr>
<tr>
<td>Solutions to problems, 4:267–279</td>
<td></td>
</tr>
<tr>
<td>Discounted payback period, 3:14–15</td>
<td></td>
</tr>
<tr>
<td>Discount factor</td>
<td></td>
</tr>
<tr>
<td>Annuity, 5:418</td>
<td></td>
</tr>
<tr>
<td>For benchmark government bonds, 5:219–220</td>
<td></td>
</tr>
<tr>
<td>For corporate bonds, 5:222</td>
<td></td>
</tr>
<tr>
<td>Defined, 5:7</td>
<td></td>
</tr>
<tr>
<td>For floating-rate notes, 5:229, 230</td>
<td></td>
</tr>
<tr>
<td>For forward rate agreements, 5:327</td>
<td></td>
</tr>
<tr>
<td>For interest rate options, 5:415</td>
<td></td>
</tr>
<tr>
<td>And two-period binomial model, 5:388</td>
<td></td>
</tr>
<tr>
<td>For zero-coupon bonds, 5:205</td>
<td></td>
</tr>
<tr>
<td>Discount for lack of control (DLOC), 4:590</td>
<td></td>
</tr>
<tr>
<td>Discount for lack of marketability (DLOM), 4:30, 591–592</td>
<td></td>
</tr>
<tr>
<td>Discount function, 5:7</td>
<td></td>
</tr>
<tr>
<td>Discounting with carry arbitrage model, 5:321</td>
<td></td>
</tr>
<tr>
<td>Future cash flows, 6:381</td>
<td></td>
</tr>
<tr>
<td>In venture capital method of valuation, 6:171–172</td>
<td></td>
</tr>
<tr>
<td>Discount margin (DM), of floating-rate notes, 5:230–231, 234</td>
<td></td>
</tr>
<tr>
<td>Discount rates for cash flows from simulations, 1:529–532</td>
<td></td>
</tr>
<tr>
<td>For commercial real estate, 6:453–454 and decision trees/scenario analysis, 1:531–532</td>
<td></td>
</tr>
<tr>
<td>Errors with, 3:57</td>
<td></td>
</tr>
<tr>
<td>In expectations approach to options valuation, 5:385</td>
<td></td>
</tr>
<tr>
<td>And key rate durations, 5:157</td>
<td></td>
</tr>
<tr>
<td>Nominal, 4:92</td>
<td></td>
</tr>
<tr>
<td>Overnight index swap rate as, 5:327n.11</td>
<td></td>
</tr>
<tr>
<td>In present value models, 4:199–200; 6:381–382</td>
<td></td>
</tr>
<tr>
<td>For private companies, 4:567, 571–574</td>
<td></td>
</tr>
<tr>
<td>For private equity investments, 6:144</td>
<td></td>
</tr>
<tr>
<td>For private real estate, 6:29–30, 33, 44</td>
<td></td>
</tr>
<tr>
<td>Real, 4:92, 320–321</td>
<td></td>
</tr>
<tr>
<td>And required rates of return, 3:9; 4:571 and returns, 4:57</td>
<td></td>
</tr>
<tr>
<td>Risk-adjusted, 1:529–532</td>
<td></td>
</tr>
<tr>
<td>For risky bonds, 5:145</td>
<td></td>
</tr>
<tr>
<td>Selection of, 4:92</td>
<td></td>
</tr>
<tr>
<td>And uncertainty of future cash flows, 6:381, 382</td>
<td></td>
</tr>
<tr>
<td>Discounts, 4:588–595</td>
<td></td>
</tr>
<tr>
<td>Application of, 4:592–594</td>
<td></td>
</tr>
<tr>
<td>Conglomerate, 4:28–29</td>
<td></td>
</tr>
<tr>
<td>On convertible bonds, 5:171n.8</td>
<td></td>
</tr>
<tr>
<td>Defined, 4:199</td>
<td></td>
</tr>
<tr>
<td>Forward, 1:550, 561</td>
<td></td>
</tr>
<tr>
<td>Illiquidity, 4:30</td>
<td></td>
</tr>
<tr>
<td>Lack of control, 4:590</td>
<td></td>
</tr>
<tr>
<td>Lack of marketability, 4:30, 591–592 and premiums, 4:588–589</td>
<td></td>
</tr>
<tr>
<td>In present value models, 4:64</td>
<td></td>
</tr>
<tr>
<td>For risk, 6:390–392</td>
<td></td>
</tr>
<tr>
<td>Discrete dividends, equity forward pricing and valuation with, 5:322–323</td>
<td></td>
</tr>
<tr>
<td>Discrete risk, 1:531</td>
<td></td>
</tr>
<tr>
<td>Discretionary accruals, 2:314</td>
<td></td>
</tr>
<tr>
<td>Discriminant analysis, for qualitative dependent variables, 1:377</td>
<td></td>
</tr>
<tr>
<td>Dispersion, 5:486</td>
<td></td>
</tr>
<tr>
<td>Disproportionate returns, 4:590</td>
<td></td>
</tr>
<tr>
<td>Dispute resolution system, in IOSCO framework, 1:714</td>
<td></td>
</tr>
<tr>
<td>Dissemination of information, 1:60, 84–85, 161–162</td>
<td></td>
</tr>
<tr>
<td>Dissociation, 1:26–28</td>
<td></td>
</tr>
<tr>
<td>Distressed securities (private equity class), 6:137</td>
<td></td>
</tr>
<tr>
<td>Distributed ledgers, 1:254–255</td>
<td></td>
</tr>
<tr>
<td>Distributed ledger technology (DLT), 1:239, 241, 253–257</td>
<td></td>
</tr>
<tr>
<td>Adding transactions to ledgers, 1:255 challenges, 1:257</td>
<td></td>
</tr>
<tr>
<td>Investment management applications, 1:256–257</td>
<td></td>
</tr>
<tr>
<td>Permissioned and permissionless networks, 1:255</td>
<td></td>
</tr>
<tr>
<td>Distributed to paid in (DPI), 6:160</td>
<td></td>
</tr>
<tr>
<td>Distribution(s)</td>
<td></td>
</tr>
<tr>
<td>In Europa Venture Partners III case study, 6:162, 163</td>
<td></td>
</tr>
<tr>
<td>Funds/cash available for, 6:105</td>
<td></td>
</tr>
<tr>
<td>Life and health insurance companies, 2:273–276</td>
<td></td>
</tr>
<tr>
<td>Property and casualty insurance companies, 2:265–266</td>
<td></td>
</tr>
<tr>
<td>Distribution area laws, 1:26</td>
<td></td>
</tr>
<tr>
<td>Distribution expenses, 4:119, 173–174</td>
<td></td>
</tr>
<tr>
<td>Distribution waterfall, for private equity funds, 6:155</td>
<td></td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
</tr>
<tr>
<td>Commodities and, 6:190</td>
<td></td>
</tr>
<tr>
<td>With equity REITs, 6:86</td>
<td></td>
</tr>
<tr>
<td>Of L&amp;H insurance investments, 2:278–279</td>
<td></td>
</tr>
<tr>
<td>And Prudential, Prudential, and Care [Standard III(A)], 1:77</td>
<td></td>
</tr>
<tr>
<td>With mergers and acquisitions, 3:284</td>
<td></td>
</tr>
<tr>
<td>With private equity investments, 6:157</td>
<td></td>
</tr>
<tr>
<td>With private real estate investments, 6:13</td>
<td></td>
</tr>
<tr>
<td>And Suitability [Standard III(C)], 1:92</td>
<td></td>
</tr>
<tr>
<td>Diversified real estate investment trusts, 6:91, 94</td>
<td></td>
</tr>
<tr>
<td>Divestiture, 3:319, 4:9</td>
<td></td>
</tr>
<tr>
<td>Dividend Aristocrats, 3:142–143</td>
<td></td>
</tr>
<tr>
<td>Dividend coverage ratio, 3:179–182</td>
<td></td>
</tr>
<tr>
<td>Dividend discount models (DDMs), 4:207–210</td>
<td></td>
</tr>
<tr>
<td>As absolute valuation model, 4:223–24</td>
<td></td>
</tr>
<tr>
<td>Capitol Shopping Center REIT Inc. case study, 6:121–122</td>
<td></td>
</tr>
<tr>
<td>For Coca-Cola Bottling Company and Hormel Foods, 4:202–204</td>
<td></td>
</tr>
<tr>
<td>And dividends as returns, 4:201–204</td>
<td></td>
</tr>
<tr>
<td>FCFF and FCFE vs., 4:284</td>
<td></td>
</tr>
<tr>
<td>For multiple holding periods, 4:208–210</td>
<td></td>
</tr>
<tr>
<td>Multistage (see multistage dividend discount models) and residual income model, 4:500–501, 512–514</td>
<td></td>
</tr>
<tr>
<td>And share repurchases, 4:218–219</td>
<td></td>
</tr>
<tr>
<td>For single holding period, 4:207–208</td>
<td></td>
</tr>
<tr>
<td>For valuation of REITs and REOCs, 6:110</td>
<td></td>
</tr>
<tr>
<td>Dividend displacement of earnings, 4:242, 437</td>
<td></td>
</tr>
<tr>
<td>Dividend imputation tax system, 3:151</td>
<td></td>
</tr>
<tr>
<td>Dividend index point, 5:321</td>
<td></td>
</tr>
<tr>
<td>Dividend payout ratio constant, 3:155, 157–158</td>
<td></td>
</tr>
<tr>
<td>Defined, 3:129</td>
<td></td>
</tr>
<tr>
<td>And dividend safety, 3:179–183 and FFO/AFFO, 6:115</td>
<td></td>
</tr>
<tr>
<td>Global trends in, 3:177–178</td>
<td></td>
</tr>
<tr>
<td>Dividend policy, 3:125–197 and company value, 3:134–147</td>
<td></td>
</tr>
<tr>
<td>Bird in the hand argument, 3:136</td>
<td></td>
</tr>
<tr>
<td>Clientele effect, 3:137–141 and controlling agency costs with dividends, 3:144–147</td>
<td></td>
</tr>
<tr>
<td>Information content of dividend actions, 3:141–144</td>
<td></td>
</tr>
<tr>
<td>Irrelevance of dividend policy, 3:135–136</td>
<td></td>
</tr>
</tbody>
</table>
summary, 3:147
taxation, 3:136–137
and coverage ratio, 3:180–182
dividend safety, 3:179–183
of European Union, 4:201, 202
factors affecting, 3:147–154
contractual and legal restrictions, 3:153
and expected volatility of future earnings, 3:148–149
and financial flexibility, 3:149
flotation costs, 3:152–153
investment opportunities, 3:148
summary, 3:154
taxes, 3:149–152
forms, 3:127–134
extra dividends, 3:128–130
liquidating dividends, 3:130
regular cash dividends, 3:127–128
special dividends, 3:128–130
stock dividends, 3:130–132
stock splits, 3:132–134
in income statement modeling, 4:132
payout policies, 3:155–161
constant dividend payout ratio policy, 3:157–158
defined, 3:126
global trends, 3:177–178
residual dividend policy, 3:159–161
stable dividend policy, 3:155–157
practice problems, 3:187–192
share repurchases, 3:161–177
dividend vs. share repurchase decision, 3:169–177
financial statement effects, 3:164–167
methods for, 3:162–164
valuation of cash dividends vs., 3:167–169
solutions to problems, 3:193–197
dividend rate, 4:437
dividend reinvestment plans (DRPs), 3:128
dividends. see also discounted dividend valuation; price to dividends (P/D)
BSM model with, 5:408–409
in Capitol Shopping Center REIT Inc. case study, 6:118
cash
dividend reinvestment plans, 3:128
regular cash dividends, 3:127–128
Russell 1000 companies, 3:175
share repurchase valuation, 3:167–169
and stock dividends, 3:132
continuous yield, 5:321
controlling agency costs with, 3:144–147
and conversion price, 5:168
defined, 3:126
discrete, 5:322–323
extra, 3:128–130
and FCFE, 4:302, 319
and FCFY, 4:319
financial policies and growth rate of, 4:244
free cash flow vs., 4:315–317
GAAP and IFRS on, 4:293–294
in Gordon growth model, 4:217–218
implied growth rate of, 4:219–220
initiations of, 3:141–142
irregular, 3:128–130
liquidating, 3:130, 153
with negative growth, 4:217
preferences for capital gains vs., 3:139–140
in present value models, 4:201–204
for private equity firms, 6:143
regular cash, 3:127–128
and share prices, 3:143
signaling of information with, 3:141–144
special, 3:128–130
spreadsheet model for, 4:246–247
stock, 3:130–132
and stock splits, 3:132–134
and synthetic assets with futures, 5:466n.14
two-period binomial model for options with, 5:393–394
of US banks, 3:174
dividend safety, 3:179–183
dividends per share (DPS), 3:155
dividends received, 4:432
dividends to policyholders ratio, 2:629
dividends to shareholder ratio, 2:269
dividend vs. share repurchase decision, 3:169–177
dilution from employee stock options, 3:170
example, 3:175–177
financial leverage, 3:170–173
managerial flexibility, 3:170
share price, 3:170
tax advantages, 3:170
dividend yield (D/P), 4:436–439
calculation of, 4:437–438
and comparables, 4:439
and forecasted fundamentals, 4:438–439
forward, 4:218
in fundamental factor models, 6:289–290
and price-to-dividends, 4:392
and stock splits, 3:132
DJ-UBS (Dow Jones-UBS Commodity Index). see Bloomberg Commodity Index (BCOM)
DLOC. see discount for lack of control
DLOM. see discount for lack of marketability
DLT. see distributed ledger technology
DM. see discount margin, of floating-rate notes
DMA. see direct market access
documentation, of trade allocation procedures, 1:85–86
documents, former employers’, 1:110
Dodd, David L., 4:382
Dodd–Frank Act, 1:707, 709, 719–720, 724
Dojima Rice Exchange, 6:205
Dollar, Australian
currency code, 1:605
mark-to-market of forward contracts for, 1:553
dollar, Canadian
CAD/USD currency pair, 1:541n.2, 543
correlation of exchange rate returns, 1:275–277
currency code, 1:605
and Japanese yen, 1:283–284
dollar, New Zealand, 1:605
dollar, US
BMW’s foreign currency exposure, 1:2189, 190
CAD/USD currency pair, 1:541n.2, 543
correlation of exchange rate returns, 1:275–277
currency code, 1:605
and Japanese yen, 1:283–284
currency translation, 2:155–157
and current account deficit, 1:578–579
demand for financial assets, 1:580
DEM/USD currency pair, 1:580–581
exchange rate with Swiss franc, 1:434–435
international risk premium estimation, 4:89
JPY/USD currency pair, 1:544–545
bid–offer spread for, 1:542
equity market trends and exchange rates, 1:582
exchange rate as random walk, 1:662–646
forward points for, 1:552n.9
triangular arbitrage with, 1:544–545
real GDP per capita, 1:621–622
interest rate differentials and value of, 1:580–581
swap rates of, 5:243–244
and Turkish lira, 1:581–582
USD/EUR currency pair, 1:541, 542, 544–545
arbitrage constraints for exchange rate quotes, 1:544–545
exchange rate quotes for, 1:541, 542
liquidity in, 1:542
spot and forward rate quotes, 1:551–552
USD/GBP currency pair, 1:542, 545–546
domestic currency designation, 1:541n.1
dominance, 5:78
Donaldson, Thomas, 3:218n.27
Dornbusch, Rudiger, 1:587
dornbusch Overshooting model, 1:587–588
double counting of risk, 1:529–530, 532, 533
double taxation system, 3:150–151
Dow 30 Index, 4:507
Dow Jones, 4:399
Dow Jones Industrial Average, 4:389n.17
Dow Jones Select Dividend Index, 3:137
Dow Jones-UBS Commodity Index (DJ-UBS). see Bloomberg Commodity Index (BCOM)
down factor, in binomial model, 5:380, 387
DOWNREIT structure, 6:84, 88
downside risk, with convertible bonds, 5:172
downstream transactions, 2:31, 33–34
D/P see dividend yield
DPL. see distributed to paid in
dividends to shareholders, 3:437–438
and comparables, 4:439
correlation of exchange rate returns, 1:275–277
drawdown, 6:357–358
Duties to Clients [Standard of Professional Conduct III], 1:73–105
Fair Dealing [Standard III(B)], 1:82–90
application of the standard, 1:86–90
case studies, 1:209–210, 222–223
cumulative procedures, 1:84–86
guidance, 1:82–84
text of, 1:17, 82
and trade allocation, 1:230
Loyalty, Prudence, and Care [Standard III(A)], 1:73–81
application of the standard, 1:78–81
in case studies, 1:227
cumulative procedures, 1:77–78
guidance, 1:73–77
text of, 1:17, 73
and trade allocation, 1:230
Performance Presentation [Standard III(D)], 1:97–101
application of the standard, 1:98–101
cumulative procedures, 1:98
guidance, 1:97–98
text of, 1:17, 97
Preservation of Confidentiality [Standard III(E)], 1:101–105
application of the standard, 1:103–105
cumulative procedures, 1:103
guidance, 1:101–102
text of, 1:17, 101
Suitability [Standard III(C)], 1:90–97
application of the standard, 1:94–97
in case studies, 1:210, 221–222, 227–228
and changes in investment objectives, 1:233–234
cumulative procedures, 1:93–94
guidance, 1:90–93
text of, 1:17, 90
Duties to Employers [Standard of Professional Conduct IV], 1:105–126
Additional Compensation Arrangements [Standard IV(B)], 1:116–117
application of the standard, 1:116–117
in case studies, 1:210–211, 219
cumulative procedures, 1:116
guidance, 1:116
text of, 1:17, 116
Loyalty [Standard IV(A)], 1:105–115
application of the standard, 1:109–115
in case studies, 1:217–219
cumulative procedures, 1:109
guidance, 1:105–109
text of, 1:17, 105
Responsibilities of Supervisors [Standard IV(C)], 1:118–126
application of the standard, 1:122–126
in case studies, 1:223–226
cumulative procedures, 1:120–122
eleventh revision, 1:7–8
guidance, 1:118–120
text of, 1:18, 118
dynamic portfolios, replicating option payoffs with, 5:377
dynamic replication, 5:387, 388
Dynegy, 3:210
and market value of invested capital, 4:580
from net operating income, 6:106
earnings before interest, taxes and amortization (EBITA), 4:446
earnings before interest and taxes (EBIT) adjusting, 4:307–308
bond indenture covenants with minimums on, 3:145
enterprise value to, 4:446
FCFE from, 4:306–308
FCFF and FCFE vs., 4:285
FCFF from, 4:306–308
forecasting, 4:310–311
in segment analysis, 2:387–395
earnings growth, 6:439–444
earnings management, 2:293
earnings per share (EPS), 3:155
basic, 4:385
and capital projects, 3:56
diluted, 4:385
historical average, 4:388
for nonrecurring items, 4:386–388
normalized, 4:388–389
and P/E multiples, 4:379, 383
and share repurchases, 3:164–167, 170
and technological cannibalization, 4:157–159, 161–163
trailing, 4:386–387
earnings persistence, 2:313–318
earnings-plus-noncash-charges
definition of cash flow, 4:343
earnings quality, 2:310–333
bankruptcy prediction models, 2:331–332
defined, 2:290
indicators of quality, 2:310–319
beating benchmarks, 2:319
earnings persistence and measures of accruals, 2:313–318
external indicators of low-quality earnings, 2:319
mean reversion in earnings, 2:318–319
recurring earnings, 2:310–313
in long-term equity investment case study, 2:395–396
relationship of financial reporting quality and, 2:291
SEC case examples, 2:319–331
assessing quality of expense recognition, 2:330–331
assessing quality of revenues, 2:326–328
cost capitalization, 2:328–329
revenue recognition, 2:320–326
Sunbeam Corporation, 2:320–324
WorldCom Corp., 2:328–329
earnings smoothing, 2:293
earnings surprise, 4:451–453
earnings yield, 4:391, 392
earn-outs, for private equity firms, 6:143
East Asia, 1:639, 680. see also specific countries
Eastern Europe. see specific countries
Eastman Kodak Company, 2:347–349
EBIT. see earnings before interest and taxes
EBITA. see earnings before interest, taxes and amortization
EBITDA. see earnings before interest, taxes, depreciation, and amortization
EC. see European Commission
ECB. see European Central Bank
economic capital, 6:354
economic conditions, credit spreads and, 5:242
economic cycles, 6:439–444
Economic Development Board (EDB), 1:704
economic development strategies, developing countries', 1:680–681
economic disruption, 4:167
economic drivers, for equity REITs, 6:379–399
asset values and expectations of future cash flows, 6:383
bonds, 6:383–437
bonds with credit premiums, 6:425–437
default-free nominal coupon-paying bonds, 6:402–425
real default-free bonds, 6:383–402
commercial real estate, 6:452–457
and business cycles, 6:455–457
pricing formula for, 6:453–455
regular cash flows from, 6:452–453
and connections of financial activity with economy, 6:380
equities, 6:437–451
with bad consumption hedging properties, 6:438–439
earnings growth and economic cycles, 6:439–444
investment strategies for, 6:484–485
pricing formula for, 6:437
quantifying risk premiums for, 6:444–445
risk premium for, 6:437–438
valuation multiples for, 6:445–447
practice problems, 6:461–465
with present value model of asset valuation, 6:380–382
solutions to problems, 6:466–469
economic growth, 1:619–700
bias in forecasts of, 1:305
and capital deepening, 1:635–637
in China and India, 1:656–658
classical model, 1:659
convergence of, 1:674–678
default-free interest rates, 6:392–395
determinants of, 1:633–658
in developed vs. developing countries, 1:582, 620–628
Argentina and Venezuela, 1:626–628
education and health care, 1:624–625
financial markets and intermediaries, 1:623–624
free trade and capital flows, 1:625–626
political stability, rule of law, and property rights, 1:624
savings and investment, 1:623
tax and regulatory systems, 1:625
endogenous growth theory, 1:671–674
growth accounting, 1:637–638
importance to investors, 1:620
in Ireland, 1:653–656
and labor quality, 1:646–647
and labor supply, 1:641–646
average hours worked, 1:646
labor force participation, 1:642–643
net migration, 1:644–645
population growth, 1:641–642
and natural resources, 1:639–641
neoclassical model, 1:659–671
comparative statics and transitional growth, 1:668–670
extensions of, 1:670–671
implications of, 1:666–667
steady state rate of growth, 1:660–666
and oil, 6:192
in open economies, 1:678–686
China and India, 1:679–680
currency convergence, 1:682
Spain, 1:682–686
and physical capital, 1:647–649
and potential GDP, 1:628–633
practice problems, 1:690–696
and production function, 1:633–635, 639
and public infrastructure, 1:653
and real yields, 6:396–401
solutions to problems, 1:697–700
and technology, 1:635–637, 649–653
theories of, 1:658–678
economic income, 6:458–61
economic management, 1:593
economic obsolescence, 6:48
economic profit, 3:62–63; 4:496
economic rate of return, 3:61
economic rationale for regulation, 1:705–708
regulatory interdependencies, 1:706–708
regulatory tools, 1:707–710
self-regulation in securities markets, 1:711–713
economic reality, financial reporting and, 2:301–305
economic reasoning, for model specification, 1:363
economic responses, capital projects and, 3:56
economic sectors, 4:399–401
banking, 1:714; 3:113–115; 6:432
commodity, 6:191–196
consumer cyclical and non-cyclical, 6:432
and control premiums, 4:581
energy, 6:191–193, 197–199
average annual sector roll return, 6:224, 225
and commodity hedging, 6:216
commodity life cycle, 6:197–199
crude oil, 6:191–193
natural gas, 6:193
refined products, 6:193
in Rogers International Commodity Index (RICI), 6:233
fundamental and valuation statistics, 4:447–448
price multiples for, 4:405
regulation of, 1:720–725
ROE for, 4:509–510

Cumulative_Ind_12 29

June 14, 2018 9:39 PM
economic terms, for private equity funds, 6:153–154
economic value added (EVA), 3:62n.17; 4:496
economic value of commercial real estate, 6:21–22
economies of scale, 3:280; 4:115

economy
financial activity and, 6:380
private equity in, 6:136
EDB. see Economic Development Board education compliance, 1:121
in developing vs. developed countries, 1:624
and labor quality, 1:646–647
Edwards–Bell–Ohlson model, 4:496
EEM. see excess earnings method EEOC. see US Equal Employment Opportunity Commission Efes, 4:140
effective convexity, 5:158–161
effective duration. see also one-sided durations
of bonds with embedded options, 5:151–155
and yield curve risk, 5:51–52
effective interest rate, 2:11n.4
effective tax rate, 2:184–186; 4:128–131
effective yield, of property, 6:41
The Effects of Changes in Foreign Exchange Rates (IAS 21), 2:12n.5; 155–157
efficiency, market, 4:7; 6:173n.22
efficiency ratios, 4:132
Egypt
natural resources, 1:640
real GDP per capita, 1:621, 677
EIA. see Energy Information Administration
8-K, Form, 2:358
Elan Corporation, plc, 2:303
election, of directors, 3:239
electricity markets, 1:532
electric utilities, 3:146–147
electronic information, confidence of, 1:102
Eli Lilly, 4:113
embedded options, 5:123–127. see also
bonds with embedded options
call, 5:123–124; 419
complex, 5:124–127
defined, 5:123
extension, 5:124
optimal exercise of, 5:131
put, 5:124
simple, 5:123–124
EMC Corporation, 4:444–445
emerging markets. see also developing countries
capital flows, 1:580, 593–595
carry trade returns, 1:574
corporate governance and returns, 3:263
country spread model, 4:90
economic growth and price stability, 1:582
international Fisher effect, 1:569
private equity valuation, 6:140
sovereign credit risk, 6:433–434
EMIR. see European Market Infrastructure Regulation
Employee Benefits (IAS 19), 2:76
employee compensation, 2:75–127
post-employment benefits, 2:76–102
DB pension plan obligations, 2:79–80
disclosure, 2:92–102
financial statement reporting, 2:81–92
types of, 2:77–79
practice problems, 2:112–121
share-based compensation, 2:102–109
American Eagle Outfitters, Inc., 2:103–104
equity valuation for, 4:10
as noncash charges, 4:299
private company valuation for, 4:559
SABMiller plc, 2:103
stock appreciation rights, 2:109
stock grants, 2:105–106
stock options, 2:106–108
solutions to problems, 2:122–127
value of, 2:76
Employee Retirement and Income Security Act (ERISA), 2:101; 6:263
employees
checking references of, 1:54
classifications of, 1:109
independent contractors vs., 1:108
as stakeholders, 3:202, 205
employee stock options
ESOPs, 2:103
as compensation, 2:106–108; 3:243, 244
dilution from, 3:170
pricing models for, 2:106–107
employee stock ownership plans
(EOSPs), 2:204; 4:559
employer(s)
competing with current, 1:112
disclosure of conflicts to, 1:150, 156
duties to (see Duties to Employers [Standard of Professional Conduct IV])
leaving, 1:106–107, 115
misrepresentation of work for, 1:46
responsibilities of, 1:106
employment, nature of, 1:108–109
EMS. see execution management system
endogenous growth theory, 1:671–674
adjusting, for an open economy, 1:679
and convergence, 1:676
neoclassical model vs., 1:673–674
endowments, 6:261, 303
Energen, 4:234–236
Energizer, 4:121
Energy Information Administration (EIA), 4:15n.
energy resources
and economic growth, 1:640–641
regulation of financial products on, 1:721
energy sector, 6:191–193, 197–199
average annual sector roll return, 6:224, 225
and commodity hedging, 6:216
commodity life cycle, 6:197–199
crude oil, 6:191–193
natural gas, 6:193
refined products, 6:193
in Rogers International Commodity Index (RICI), 6:233
Engelhardt Corporation, 3:298–299
England, 3:113. see also United Kingdom
Engle, Robert F., 1:481–483, 486
Engle–Granger test for unit roots, 1:486
enhanced index investment strategy, 6:253–254
Enron Corporation, 3:263, 5:216
accounting scandal, 3:210
business structure and profitability, 6:444
corporate governance failure, 3:231–232
due diligence requirements after collapse, 4:32
eyearly recognition of financial problems at, 2:290
hiding of financial information, 3:246
net income and operating cash flow, 2:316–317
non-recurring items, 2:310–312
risk information in financial press about, 2:358
unethical leadership, 3:216
ensemble learning, 1:385–386
terprice, relationship of stakeholders and, 3:202
terprice value (EV) defined, 4:580n.32
and invested capital, 1:309–311
in market-based valuation, 4:440–446
and returns to invested capital, 1:301–303
terprice value multiples, 4:440–448
alternative denominators in, 4:446–447
defined, 4:378, 440
terprice value to EBITDA, 4:440–446
alternatives to, 4:446–447
determining enterprise value, 4:441–444
valuation based on comparables, 4:444–446
valuation based on forecasted fundamentals, 4:444
terprice value to sales, 4:447
termethod of comparables for, 4:380
price multiples vs., 4:447–448
terprice value-to-earnings before interest, taxes, depreciation, and amortization (EV/EBITDA), 6:104
terprice value to earnings before interest, taxes and amortization (EV/EBIT), 6:446
terprice value to EBITDA (EV/EBITDA), 4:440–446
alternatives to, 4:446–447
determining enterprise value, 4:441–444
valuation based on comparables, 4:444–446
valuation based on forecasted fundamentals, 4:444
terprice value to EBIT (EV/EBIT), 4:446
enterprise value to free cash flow to the firm (EV/FCFF), 4:446
total enterprise value to sales (EV/S), 4:447
total entertainment and media segment, 5:288–289
sources of information, 4:17
total environmental, social, and governance (ESG) factors
in free cash flow valuation, 4:331–336
long/short trade with, 5:288–289
Equifax, 3:44
Equity REIT Index, 6:14
Equity REITs, 6:91, 93–95
Equity risk premiums in, 6:437–438
valuation multiples for, 6:445–447
Equity swaps, 5:356–361
applications of, 5:490
Equity valuations, 6:437–451. see also
equities valuation, 6:437–451. see also
equity valuation, 6:437–451. see also
institutional investors valuation, 6:437–451. see also
equity valuation, 6:437–451. see also
business valuation, 6:437–451. see also
equity valuation, 6:437–451. see also
valuation multiples for, 6:445–447
valuation multiples for, 6:445–447
valuation multiples for, 6:445–447
individual REITs, 6:91, 93–95
market for, 6:82–84
multi-family/residential REITs, 6:93, 95
office REITs, 6:91, 92, 94, 95
property subtypes, 6:91–96
real estate operating companies vs., 6:86–87, 96–97
retail REITs, 6:94, 95
shopping center/retail REITs, 6:91–92
storage REITs, 6:93, 94
structure of, 6:84
Equity REIT Index, 6:14
equity risk premium, 4:58–71
and capital asset pricing model, 4:59
demand-side estimates, 4:69n.28
in equities valuation, 6:437–438
in single-factor equity model, 4:58
ex post, 4:44–445
forward-looking estimates, 4:68–71
Gordon growth model, 4:68–69
surveys, 4:71
historical estimates, 4:59–68
adjusted, 4:65–68
arithmetic/geometric mean, 4:63–64
in developing markets, 4:66–67
government bonds vs. bills, 4:64–65
and returns of stocks vs. government debt, 4:60–63
quantifying, 4:444–445
and required return on equity, 4:58–59
supply-side estimates, 4:69–71
equity swaps, 5:356–361
applications of, 5:490
cash flows, 5:356–359
defined, 5:356
pricing, 5:359–360
risk exposures with, 5:452–453
synthetic floating-rate bonds for, 5:345
valuation, 5:359–361
equity valuation, 4:5–49
about, 4:5–6
absolute valuation models, 4:23–25
applications, 4:9–11
for asset-based valuation, 4:24–25
and market expectations, 4:10–11
models for, 4:23–30
practice problems, 4:41–46
relative valuation models, 4:25–26
research reports, 4:33–37
contents, 4:33–35
formats, 4:35–36
responsibilities for reporting, 4:36–37
with residual income, 4:495–496
solutions to problems, 4:47–49
sum-of-the-parts valuation, 4:26–29
types of value, 4:6–9
fair market/liquidation value, 4:8
going concern/liquidation value, 4:8
intrinsic value, 4:6–8
summary, 4:9
valuation process, 4:11–33
applying valuation conclusions, 4:31–33
business context in, 4:12–22
conversion of forecasts to valuations, 4:30
forecasting company performance, 4:22–23
selecting valuation models, 4:22–30
equivalent annual annuity approach, 3:40
equivalent number, for underlying, 5:406
equivalent yield, in real estate valuation, 6:404–05
Erb, Claude, 4:90n.53
Erb, Harvey, and Viskanta model, 6:140n.1
ERISA. see Employee Retirement and Income Security Act
ERM. see European Exchange Rate Mechanism
Ernst & Young, 3:212
errors. see also standard error of (estimate) (SEE)
ARCH(1), 1:483
autocorrelations of, 1:355–359, 450–452
related, 1:446–447
Fisher effect with, 1:374–376
heteroskedastic, 1:349–355
in-sample, 1:456
known, 1:48
mean squared error, 1:341–342, 356
notification of, 1:144
out-of-sample, 1:456
prediction, 1:309
in real estate valuation, 6:45–46
residual, in autoregressive models, 1:436–437
root mean squared error, 1:457, 458
serially correlated, 1:355–359, 449–452
template, 3:56
time-series misspecification from measurement errors, 1:372–376
tracking, 6:296–298, 337, 356–357
Type I, 1:343, 356; 2:308
Type II, 2:308
unintentional, 1:48
error term (linear regression) assumptions about, 1:290, 291, 334
defined, 1:286
ERV. see estimated rental value escrow method of options valuation, 5:393–394
ESG factors. see environmental, social, and governance factors
ESG risk exposures. see environmental, social, and governance risk exposures
ESMA. see European Securities and Markets Authority
ESOPs. see employee stock ownership plans
ESRB. see European Systemic Risk Board
Essay on the Principle of Population (Malthus), 1:659
established rivals in beer markets, 4:138, 139
in cognac industry, 4:170
and financial forecasts, 4:137–139
estate puts, bonds with, 5:125
Estée Lauder, 4:121
estimated rental value (ERV), 6:37
estimates accounting, 4:387n.12
aggressive, 4:20
of beta, 1:299–301
of equity risk premium demand-side estimates, 4:69n.28
forward-looking estimates, 4:68–71
historical estimates, 4:59–68
supply-side estimates, 4:69–71
ex ante, 4:68–71
of expected value, 1:527
of intrinsic value, 4:55–57
of matrix price, 4:441n.55
of parameters in linear regression, 1:287, 349n.31
of pension obligation, 2:93–94
point, 1:527
of potential GDP, 1:630, 631
of required rate of return, 4:570–574
of required return, 4:224–225
of returns from factor sensitivities, 6:288–289
standard error of (see standard error of estimate [SEE])
estimation of beta, 1:299–301; 4:72–79; 6:144
of cannibalization impact, 4:159–163
capital ratio sensitivities, 2:626–263
cash flows, 4:567–569
of depreciated replacement cost, 6:46–48, 46–49
of expenses, 1:523–526
historical, 4:59–68; 5:85
of inputs, 1:526–527
of interest rate volatility, 5:85
of liabilities, 2:267
for private equity investments, 6:144, 171
for real estate investments, 6:34–36
of required rate of return, 4:570–574
of required return, 4:224–225
of returns from factor sensitivities, 6:288–289
of revenues, 1:523–526
of risk premium, 3:49; 4:68–71, 89
of terminal value, 6:34–36, 144, 171
trends, 1:443
of value at risk, 6:322–333, 324, 335
ethical behavior, 3:219–223
and corporate governance procedures, 3:222
in decision-making processes, 3:221
and ethics officers, 3:221–222
in hiring and promotion, 3:219–220
and moral courage, 3:222–223
and organizational culture/leadership, 3:220
ethical decision making, 1:207–228
Subah Agarway case study, 1:212–216
framework, 1:13–14, 207–208
Preston Partners case study, 1:220–224
Peter Sherman case study, 1:216–219
Edvard Stark case study, 1:208–212
Super Selection Investment Advisors case study, 1:224–228
ethical responsibilities, portfolio managers, 6:265
ethics, 1:11–15; 3:210–223. see also Code of Ethics; Standards of Professional Conduct
causes of unethical behavior, 3:215–216
and changes in investment objectives, 1:233–234
director, 3:252–253
of directors, 3:252–253
ensuring ethical behavior, 3:219–223
ethical issues in strategy, 3:211–214
firms commitment to, 1:14
and investment industry, 1:11–15
philosophical approaches to, 3:216–219
and regulations, 1:13
societal benefit of, 1:12
and trade allocation, 1:229–231
ethics officers, 3:221–222
Ethiopia
growth in real GDP per capita, 1:677, 678
natural resources, 1:640
real GDP per capita, 1:622, 623
E*TRADE Financial Corp., 4:424
EU. see European Union
Euribor. see European Interbank Offered Rate
euro
currency code, 1:605
GBP/EUR currency pair, 1:545–546
USD/EUR currency pair
arbitrage constraints for exchange rate quotes, 1:544–545
exchange rate quotes for, 1:541, 542
liquidity in, 1:542
spot and forward rate quotes, 1:551–552
Euro-bund forwards, 5:337–338
Euro-bund futures, 5:336–337
Eurodollar futures, TED spread and, 5:32
Eurodollar time deposits, 5:324
euro financial crisis, 6:426
Euro OverNight Index Average (Eonia), 5:32–33
Europa Venture Partners III case study, 6:161–164
Europe. see also specific countries
algorithmic trading/HFT, 6:541
banking supervision, 1:723
dividend payouts, 3:178
beer market, 4:145–146
cash dividends paid, 3:127
covered bonds, 5:250
disclosure of private equity funds, 6:155
diversified REITs, 6:94
dividend payouts, 3:178
index CDS, 5:274
labor supply and economic growth, 1:641
moving average for Brent Crude Oil prices, 1:471–472
naked CDS trading, 5:288
private equity investments, 6:137
publicly traded real estate equities, 6:81
real estate equities market, 6:82
real estate valuation standards, 6:56n.17–18
real GDP per capita, 1:622
regulatory code overhaul, 3:246
regulatory response to global financial crisis, 1:707
revenue analysis, 4:109, 110
self-regulating organizations, 1:704–705
share repurchases, 3:161, 178
valuers, 6:54n.16
Europe 350 Index, 3:142–143
European call options, 5:124
American vs., 5:391, 394–398
Black model for, 5:412–414
Black–Scholes–Merton model for, 5:404–410
exercise values of, 5:379
on futures, 5:412–414
on interest rates, 5:400–401, 416–417
lower bounds of, 5:427
multiperiod binomial model for, 5:401
notation for, 5:379
one-period binomial model for, 5:380–386
path-dependency of, 5:378
swaptions, 5:419
two-period binomial model for, 5:387–391, 394–398
European Central Bank (ECB), see also Survey of Professional Forecasters (SPF)
economic forecasting survey, 1:273n.6
as institutional representative, 2:218
monetary policy of, 1:588
NLP-based analysis, 1:250
sovereign debt purchases by, 1:724–725
European Central Bank Single Supervisory Mechanism, 2:218
European Commission (EC), 1:704–705; 3:299, 300; 4:17
European Environment Agency, 4:17
European Exchange Rate Mechanism (ERM), 1:594
European Group of Valuers’ Associations, 6:56n.17
European Interbank Offered Rate (Euribor), 5:25, 165–166
European Market Infrastructure Regulation (EMIR), 1:705
European Mortgage Federation, 6:56n.18
European options. see European call options
European Petroleum Industry Association (EUROPIA), 4:15n.
European Securities and Markets Authority (ESMA), 2:358n.29; 6:208
European Systemic Risk Board (ESRB), 1:709
European Union (EU), 5:251; 6:56n.18
Basel Committee member, 2:218
commodity regulators, 6:208
corporate governance reports, 3:235
dividend payouts, 3:178
dividend policy, 4:201, 202
European System Risk Board, 1:709
insurance company capitalization, 2:273
regulatory bodies, 1:704–705
regulatory function of credit ratings, 1:724–725
European Venture Capital Association (EVCA), 6:136–137, 158
EUROPIA. see European Petroleum Industry Association
Eurozone
Gordon growth model, 4:68
printing of cash, 6:423n.24
yield spread on government bonds, 6:424n.25
EV. see enterprise value
EVA. see economic value added
evalution(s)
bid, 3:314–318
board of directors, 3:235–248
capital budgeting projects, 3:38–57
with capital rationing, 3:40–42
mutually exclusive projects with unequal lives, 3:38–40
pitfalls, 3:55–57
with real options, 3:52–55
corporate governance, 3:234–260
financial report quality, 2:305–309
cash flow quality, 2:305–309
classification shifting, 2:339–342
Nautica Enterprises, 2:340–342
Satyam Computer Services, 2:334–338
Sunbeam, 2:338–339
general steps in process, 2:305–306
likelihood of misreporting, 2:306–309
Beneish model, 2:306–309
limitations of quantitative models, 2:309
variables for detecting misstatement, 2:309
EVCA. see European Venture Capital Association
EV/EBIT. see enterprise value to earnings before interest and taxes
EV/EBITDA. see enterprise value to earnings before interest, taxes, and depreciation, and amortization
EV/EBITDAR. see enterprise value to EBITDAR
events
algorithmic trading, 6:535
change-of-control, 5:169
corporate, 4:9
credit, 5:268, 272–273
extreme, 6:335
faithful representation of economic, 2:392n.3
shock, 5:465
succession, 5:273
EV/FCFF. see enterprise value to free cash flow to the firm
EVS. see enterprise value to sales
ex ante version of PPP, 1:565, 570, 571
Excel VBA (programming language), 1:249
excess earnings method (EEM), see also residual income model
for private equity companies, 4:569, 570, 577–578
for residual income valuation, 4:501n.10
excessive trading, 1:80, 89
excess purchase price, amortization of, 2:28–30
excess return swap, 6:227
excess spread, 5:250
exchange rate management, 1:593–595
exchange rates. see currency exchange rates; current rate method
exchange ratio, 3:290
exchange-traded funds, 2:216
excise duty, 4:141
ex-dividend (share), 3:138
ex-dividend date, 3:138
ex-dividend price, 3:136
execution algorithms, 6:534–535
execution management system (EMS), 6:535, 542
execution-only responsibilities, 1:81
execution step (portfolio management), 6:254–255
executive compensation, 2:103–104
exercise date, 2:107
exercise price, for bull spreads, 5:474
exercise rates, for interest rate options, 5:416
exercise value. see intrinsic value
exercising the option (exercise)
consequences of, 5:483
conversion option, 5:175
early, 5:390–394
embedded options, 5:131
key rate duration, 5:157
existing competitors. see established rivals
existing holdings, collars on, 5:471–472
exit price, 4:561
exit routes, for private equity investments, 6:149–151
exit year, 6:146
exogenous factors, for private equity transactions, 6:139
expanded CAPM, 4:570
expanded DuPont analysis, 2:380–381
expansionary fiscal policy, 1:585–586, 590–591
expansionary monetary policy, 1:586
expansion projects, 3:7
expansion stage (private equity), 6:137
expectations
capital market, 6:254
inflator, 6:417, 423
local expectations theory, 5:33–34
market, 4:9–11; 6:254
pure expectations theory, 5:33
unbiased expectations theory, 5:33
expectations approach
for interest rate options, 5:399
one-period binomial model, 5:384–386
two-period binomial model, 5:389–390
expected active return, 6:499–506
expected active risk, 6:499

expected alpha, 4:54  
expected changes  
in exchange rates, 1:557  
uncovered interest rate parity in terms of, 1:560  
expected exposure  
for asset-backed securities, 5:249–250  
with binomial interest trees, 5:219  
for corporate bonds, 5:223, 227  
in credit risk modeling, 5:202–203  
for floating-rate notes, 5:229–230  
for zero-coupon bonds, 5:204–205  
expected holding-period return, 4:53  
expected loss, 5:205, 279–280  
expected return, 4:54–57  
active, 6:492–493, 499–506  
on bonds, 5:17–19  
impact of credit migration on, 5:215  
and intrinsic value, 4:55–57  
to portfolio, 6:280–281  
and required rate of return, 4:54  
and risk, 6:477–478  
Expected Returns (Ilmanen), 6:220–221  
expected risk, 6:477–478, 499  
expected shortfall, 6:336  
see also conditional VaR (CVaR)  
expected tail loss, 6:336. see also conditional VaR (CVaR)  
expected terminal option payoffs, 5:389  
expected value, distributions vs. point estimates of, 1:527  
expected value added, 6:486–487  
expected volatility of future earnings, 3:148–149, 154  
expenditures  
on assets at Nestlé, 2:388–390  
capital  
in FCFF calculation, 4:290–291  
in forecasts of FCFE, 4:311–312  
maintenance vs. growth, 4:133  
of Nestlé, 2:387–392  
in valuation of real estate investments, 6:43  
of WorldCom, 2:328–329  
research and development in endogenous growth model, 1:672–673  
and price to book value, 4:415  
and residual income, 4:528  
as share of GDP, 1:649–650  
variability of, 4:120  
expense recognition, quality of, 2:330–331  
expense reimbursement, in real estate, 6:19, 42  
exchanges  
compensation, 2:108  
distribution, 4:119, 173–174  
financing, 4:127–128  
general and administrative, 6:106  
interest, 4:127–128  
minority interest, 4:132  
non-operating, 4:126–131, 176–177  
operating, 6:42–43  
as quality of earnings indicators, 4:19  
research and development, 2:304  
selling, general, and administrative, 4:119–120, 173–175  
simulations for estimating, 1:523–526  
travel, 1:36–37, 39–40  
Experian, 5:210  
experience, in machine learning, 1:380  
expert counsel, board of directors’, 3:245  
expert networks, 1:67  
exterts, 1:59–60  
external economy, 1:244  
expiration of collar, 5:471  
of covered calls, 5:462–464  
forward value at, 5:311  
of interest rate swaps, 5:449  
of protective puts, 5:466–467  
expiration date  
for binomial option valuation model, 3:578, 379  
CDS, 5:271  
expiration value  
of covered calls, 5:462, 463  
of protective puts, 5:466, 467  
extoration, of value chain members, 3:213–214  
exponential growth, log-linear trend models for, 1:440–441  
ex post alpha, 4:54  
ex post equity risk premium, 6:444–445  
ex post information ratios, 6:481  
ex post performance measurement, 6:499–499  
ex post risk and return, 6:472, 477, 478  
ex post tracking error, 6:356–357  
exposure  
credit, 5:287–291  
equity, 6:339  
fixed-income, 6:339–340  
with index CDS, 5:275  
pre  
with currency futures, 5:450–452  
with currency swaps, 5:450–451  
with derivatives strategies, 5:448–454  
with equity swaps, 5:452–453  
ESG, 3:260–262  
foreign exchange, 2:132–135  
with interest rate forwards, 5:450  
with interest rate futures, 5:448–450  
with interest rate swaps, 5:448–449  
et asset balance sheet, 2:148  
et liability balance sheet, 2:148  
with stock index futures, 5:453  
transaction, 2:132  
transaction, 2:132  
extendible bonds, 5:124, 142  
extension options, 5:124  
external advisers, selecting, 1:129  
external indicators of earnings quality, 2:319  
external(-ities)  
in capital budgeting, 3:9  
and need for regulations, 1:706, 714  
as spillover effects, 1:705n.13  
and systemic risk, 1:709  
externally compensated assignments, 4:113  
external manager, travel expenses from, 1:39–40  
external obsolescence, 6:47  
external stakeholders, 3:202  
external sustainability approach, 1:578  
external dividends, 3:128–130  
extraordinary items, under US GAAP, 2:307n.9  
extreme events, VaR and, 6:335  
ExxonMobil Corporation  
commodity price risk, 6:216  
and credit derivatives, 5:276n.13  
currency translations, 2:177  
dividends, 3:143  
and horizontal mergers, 3:280  
income of Chevron Corporation vs., 2:181–183  
M&A for growth, 3:283  
required return on equity, 4:75  
unexpected earnings, 4:452–453  
F  
factor(s)  
blockage, 4:30  
company fundamental, 6:292  
company share-related, 6:292–293  
company-specific, 4:164, 557–558; 6:433  
country, 6:293  
defined, 6:277  
discount and annuity, 5:418  
for benchmark government bonds, 5:219–220  
for corporate bonds, 5:224  
defined, 5:7  
for floating-rate notes, 5:229, 230  
for forward rate agreements, 5:327  
for interest rate options, 5:415  
and two-period binomial model, 5:389  
for zero-coupon bonds, 5:205  
down, 5:380, 387  
environmental, social, and governance, 4:17, 331–336, 5:288–289  
exogenous, 6:139  
in fundamental factor models, 6:285, 292–293  
HML, 4:80; 6:284, 294–296  
industry, 4:581; 6:293  
legal, 6:263  
LIQ, 4:83  
macroeconomic, 6:293, 394–395  
in macroeconomic factor models, 6:285  
pull, 1:593  
push, 1:593  
regulatory, 6:423–424  
RMRF, 4:79, 80; 6:284, 294–296  
SMB, 4:80; 6:284, 294–296  
in statistical factor models, 6:285  
style, 6:293  
surprises in, 6:286–287, 289, 290  
up, 5:380, 387  
WML, 6:284, 294–296  
factor analysis models, 6:285  
factor betas (factor loadings). see factor sensitivities  
factor portfolio, 6:281  
factor price, 6:281  
factor risk premium, 4:79; 6:281  
factor sensitivities (factor betas) defined, 6:287  
estimating returns from, 6:288–289  
in fundamental factor models, 6:289–290
and data science, I, 247–249  
defined, I, 240–241  
distributed ledger technology, I, 253–257  
investment management applications, I, 249–253  
firewalls, I, 32, 61  
firm policies  
for fair dealing, I, 84–86  
on loyalty, prudence, and care, I, 77–78  
firm results, overemphasis of, I, 53  
fixed-income exposure, 6, 339–340  
fixed-income forwards  
unique features of, 5, 333–334  
valuation of, 5, 337–338  
fixed-income futures, 5, 333–337  
pricing of, 5, 334–337  
unique features of, 5, 333–334  
fixed income investors, potential GDP  
for, I, 631–633  
fixed income portfolios  
see bond portfolios  
fixed-income securities  
see arbitrage-free valuation; entries beginning with bond  
fixed interest rates, in swaps, 5, 449  
fixed leg, interest rate swap, 5, 27, 345  
fixed operating expenses, 6, 42  
fixed price, share repurchases at, 1, 162  
fixed price tender offer, 3, 162  
fixed-rate perpetual preferred stock, 4, 216–217  
fixed rates, forward rate agreements with, 5, 330  
fixed receiver counterparty, 5, 325  
fixed swap rate, 5, 347–348  
FIX (financial information exchange) order, I, 6535  
“flash crash” (6 May, 2010), 6, 539  
flash reports, 1, 85  
flexibility  
of equity REITs and REOCs, 6, 87  
financial, 3, 149, 154  
managerial, 3, 170  
flexibility options, 3, 52, 53  
flexible exchange rates, I, 585  
“flight to quality,” 6, 347  
flip-in pill, 3, 294  
flip-over pill, 3, 294  
float, 2, 264  
float-adjusted capitalization-weighted market indexes, 6, 473  
floaters. see floating-rate bonds (floating-coupon bonds)  
floating interest rates, in swaps, 5, 449  
floating leg, interest rate swap, 5, 27, 345  
floating-rate bonds (floating-coupon bonds)  
capped, 5, 161–166  
fixed- vs., 5, 123  
floored, 5, 163–166  
ratchet, 5, 162–163  
floating-rate notes, 5, 227–234  
floating-rate swaps, 5, 354  
floating receiver counterparty, 5, 325  
floored floating-rate bonds, 5, 163–166  
floorlets, 5, 416  
floors, interest rate, 5, 416  
floor value, convertible bond, 5, 170–171  
flotation costs, 3, 136, 152–153  
flow supply/demand channel in current account, I, 577  
follow-up, for financial statement analysis, 4, 202, 406  
food retailers, 4, 147–148  
forced conversion, 5, 169  
forced equity issuance, 6, 89  
Ford Motor Company, 2, 93, 94; 3, 129, 145  
forecasted fundamentals-based valuation enterprise value to EBITDA, 4, 444  
forward P/E, 4, 395–397  
justified P/E, 4, 395–397  
of markets, 4, 381–382  
price to book value, 4, 422–423  
price to cash flow, 4, 435–436  
price to dividends, 4, 438  
price to earnings, 4, 395–398  
price to sales, 4, 429–430  
forecasts. see also financial forecasting by appraisers and management, 4, 567–568  
capital investment, 4, 178 of company performance, 4, 111, 22–23  
corporate income tax, 4, 177  
correlation analysis of, 1, 273–274  
currency exchange rate, 1, 540  
depreciation, 4, 178  
dividend, 4, 246–247  
equity valuations from, 4, 11, 30  
FCFE, 4, 310–312, 314  
FCFF, 4, 310–314  
of free cash flow (see free cash flow, forecasts of)  
growth, 4, 244–246  
inflation, 1, 303–305  
longer-term growth rates, 6, 110–111  
of past values of dependent variables, 1, 374  
per-share residual income, 4, 498–499  
revenue, 4, 172–173  
sales, 4, 314  
with time-series analysis  
moving-average models, 1, 472–474  
multiperiod forecasts and chain rule of forecasting, 1, 453–456  
steps, 1, 489–490  
uncertainty in, 1, 488  
working capital, 4, 178–179  
foreign currency as functional currency method, 2, 150–151  
foreign currency designation, 1, 541n.1  
foreign currency financial statements, 2, 143–183  
analytical issues with, 2, 160–172  
balance sheet exposure, 2, 147–148, 163–166  
companies with multiple translation methods for, 2, 176–177  
current rate method  
analytical issues, 2, 160–163, 167–169 defined, 2, 145  
and exchange rate movement, 2, 172  
and temporal method, 2, 176–177  
translating assets and liabilities with, 2, 145–146  
translating foreign currency financial statements with, 2, 148, 149  
disclosure of translation methods, 2, 177–183  
for Chevron Corporation, 2, 181–183  
for Exxon Mobil Corporation, 2, 187–183  
and net income, 2, 182–183  
for Yahoo! Inc., 2, 178–181  
in hyperinflationary economies  
balance sheet, 2, 172–173  
example, 2, 174–176  
income statement, 2, 173–174
foreign currency financial statements (Continued)
moneynonmonetary method analytical issues, 2:160–167
balance sheet exposures with, 2:163–166
combined with current rate method, 2:176–177
and currency exchange rate movement, 2:172
translating assets and liabilities with, 2:146–147
for translating foreign currency financial statements, 2:148
translation methods, 2:148–160
Canadaco case study, 2:157–171
foreign currency as functional currency method, 2:150–151
functional currency determination, 2:149
in highly inflationary economies, 2:154–157
parent's presentation currency as functional currency method, 2:151–154
for retained earnings, 2:152–153
translation of concepts, 2:144–148
foreign currency forward contracts. see currency futures
foreign currency futures. see currency futures
foreign currency options. see currency options
foreign currency transactions, 2:131–143
analytical issues, 2:135–138
defined, 2:131
disclosures of gains and losses in, 2:138–143
and foreign exchange risk, 2:132–135
with intervening balance sheet dates, 2:133–135
with settlement before balance sheet date, 2:132–133
foreign direct investment (FDI), 1:625
foreign exchange carry trades. see carry trades
foreign exchange component, of BSM model, 5:411
foreign exchange (FX) markets, 1:540–556
arbitrage constraints on spot exchange rate quotes, 1:544–548
conventions in, 1:540–543
forward markets, 1:548–556
foreign exchange options. see currency options
foreign exchange risk and bid-offer spread, 1:542, 543
with currency futures, 5:451
disclosures about, 2:189–190
exposure to, 2:132–135
and hedging, 2:143
in Notes to Financial Statements, 2:352–354
foreign investment, 1:625
Form 6-K, 4:16
Form 8-K, 2:358
Form 10-K, 3:261; 4:16, 427–428
Form 10-Q, 4:16
Form 20-F, 4:16
former clients, soliciting, 1:109–114
former employers, 1:99, 110
forms of business, 3:227–230
corporations, 3:229–230
partnerships, 3:229
sole proprietorships, 3:228–229
Form 10-K, 2:355
forward commitments, 5:307–373
about, 5:307
arbitrage-free pricing and valuation principles for, 5:308–309
defined, 5:307
forward contracts, 5:309–343
carry arbitrage model for futures vs., 5:342–343
currency forwards, 5:338–342
equity forwards, 5:322–324
fixed-income forwards, 5:333–334, 337–338
generic no-arbitrage forwards, 5:311–321
interest rate forwards, 5:324–333
pricing and valuation notation, 5:309–311
futures contracts, 5:322–343
carry arbitrage model for forwards vs., 5:342–343
currency futures, 5:338
equity futures, 5:322
fixed-income futures, 5:333–337
interest rate futures, 5:324–325
pricing and valuation notation, 5:309–311
practice problems, 5:363–368
solutions to problems, 5:369–373
swap contracts, 5:343–361
currency swaps, 5:349–356
equity swaps, 5:356–361
interest rate swaps, 5:345–349
receive-fixed pay-floating swaps, 5:344–345
receive-floating pay-fixed swaps, 5:343–344
forward contracts (forwards), 5:309–343
arbitrageur strategy of buying, 5:337
arbitrageur strategy of selling, 5:313–315, 337
carry arbitrage model for futures vs., 5:342–343
currency futures, 5:338–342
case example, 5:492
currency futures vs. forwards, 5:451n.8
disclosures related to, 2:143
pricing, 5:338–341
valuation, 5:341–342
equity forwards, 5:322–324
fixed-income forwards, 5:333–334, 337–338
unique features, 5:333–334
valuation of forwards, 5:337–338
generic no-arbitrage forwards, 5:311–321
carry arbitrage model without underlying cash flows, 5:311–318
carry arbitrage model with underlying cash flows, 5:318–321
interest rate forwards, 5:324–333
interest rates and FRA payments, 5:326–328
and Libor spot market, 5:324–325
pricing of FRAs, 5:328–330
risk exposure with, 5:450
time points in transactions, 5:325–326
valuation of FRAs, 5:331–333
at market, 5:310
mark-to-market values of, 1:552–556
pricing and valuation notation, 5:309–311
synthetic assets with forwards, 5:456
valuation of, 5:7
forward curve defined, 5:7
evolution of spot rates and current, 5:21–22
and forward rates, 5:7
relationship of spot curve and, 5:11–14
yield curve movement and, 5:19–20
forward discounts, 1:550, 561
forward dividend yield, 4:218
forward exchange rates calculation of, 1:548–551
quotes of, 1:551–554
and spot exchange rates/interest rates, 1:570–572
forward integration, 3:281
forward-look estimates of equity risk premium, 4:68–71
Gordon growth model, 4:68–69
macroeconomic model, 4:69–71
surveys, 4:71
forward markets, 1:548–556
calculation of forward exchange rates, 1:549–551
on commodities, 6:190
and covered interest rate parity, 1:550
forward exchange rate quotes, 1:551–554
mark-to-market values of forward contracts, 1:552–556
forward P/E defined, 4:381, 384
and equity risk premium, 6:445–446
in market-based valuation, 4:392–397
forward points, of exchange rate quotes, 1:551–552
forward premiums, 1:550, 561
forward prices. see forward rates
forward pricing model, 5:7
forward rate agreements (FRAs) defined, 5:325
and interest rate options, 5:414
interest rates and payments on, 5:326–328
notation for, 5:325
pricing, 5:328–330
time points in transactions, 5:325–326
valuation, 5:331–333
forward rate model, 5:8–16
and active bond portfolio management, 5:20–21
defined, 5:8
and forward/spot curves, 5:11–14
relationship of forward and spot rates/ prices, 5:9–12
forward rate parity, 1:560–564
forward rates (forward prices)
active bond portfolio management, 5:20–24
all-in, 1:553, 554
for benchmark government bonds, 5:219, 220
Index

and binomial interest rate trees, 5:82–85
in carry arbitrage model, 5:342–343
cash flows with forward market price too high, 5:314–315
cash flows with forward market price too low, 5:315–316
in construction of binomial trees, 5:88–91
currency forwards, 5:338–341
currency spot rates vs., 1:549–552
defined, 57, 309
equity forwards, 5:322–324
interest rate forwards, 5:328–330
in liquidity preference theory, 5:34
in local expectations theory, 5:33–34
no-arbitrage forwards, 5:314–316
notation for pricing, 5:309–311
and spot curve, 5:19–20
and spot prices/rates, 5:8–12
from yield curve, 5:129
forwards. see forward contracts
forward value
in carry arbitrage model, 5:342
currency forwards, 5:341–342
defined, 5:309, 310
equity forwards, 5:322–324
fixed-income forwards, 5:337–338
at initiation and expiration, 5:311
interest rate forwards, 5:331–333
long forward position, 5:317–318, 320–321
notation for pricing, 5:309–311
foundations, 6:261
four-factor model. see Carhart four-factor model
FPL Group, Inc., 4:224
franc, Swiss
currency code, 1:605
and Mexican peso, 1:542
and required return on equity, 4:89
and US dollar, 1:434–435
France, 2:215
active return and weights for equities, 6:499, 501, 503, 504
average hours worked, 1:646
Basel Committee membership, 2:218
break-even inflation rates, 6:412
commercial property values, 6:456
default-free government bonds, 6:425
divided imputation tax system, 3:151
ex post equity risk premium, 6:445
foreign tax credits, 3:50
GDP growth rate, 4:212
government bond risk premiums, 6:422
historical equity risk premium, 4:61, 63
ICT capital and investment in GDP, 1:647, 648
index-linked bonds, 6:396, 397
labor force participation rate, 1:643, 645
natural resources, 1:640
OECD Principles, 3:256n.18
population growth, 1:642
portfolio weights, 6:475
private real estate valuation, 6:57
publicly traded real estate equities, 6:81
R&D expenditures, 1:649
real GDP per capita, 1:621, 677, 678
real yields, 6:400
regulation and government bailouts, 1:722–723
share repurchases, 3:161
franking credit, 3:151
FRAs. see forward rate agreements
fraud, 1:55, 2:228–239
fraudulent reporting, 2:317–318
fraudulent revenue recognition, 2:320–324
free cash flow (FCF)
and cash flow of operations, 1:370–372
dividends vs., 4:315–317
forecasts of, 4:289–320
analyst adjustments to CFO, 4:314–315
and capital structure, 4:317–320
free cash flow vs. dividends, 4:315–317
in LBO model, 6:146
mistakes with net income and EBITDA, 4:316–317
noncash charges, 4:295–301
working capital effects, 4:299–301
in present value models, 4:204–205
for private companies, 4:567–569, 569–570, 575
and sales, 4:311–314
in target company valuation, 3:303–309
free cash flow hypothesis, 3:105
free cash flow to equity (FCFE) and agency costs, 3:144–145
from CFO, 4:302–306
defined, 3:65, 153, 304n.13; 4:285
and dividend coverage ratios, 3:180–182
from EBIT, 4:306–308
from EBITDA, 4:306–308
from EBIT, 4:301–306
and flotation costs, 3:153
forecasting, 4:310–312, 314
and free cash flow as returns, 4:204–205
free cash flow valuation approach, 4:285–289
constant-growth FCFE model, 4:289
defining cash flow, 4:285–286
present value of FCFE, 4:287
sensitivity analysis, 4:321–323
negative, 4:286
from net income, 4:302–306
present value of, 4:287
and price of cash flow, 4:342, 434–435
for private companies, 4:567–568
residual income model vs., 4:512
from sales forecasts, 4:314
single-stage model, 4:320–321
three-stage growth model, 4:330
two-stage free cash model, 4:323–330
on uses-of-free-cash-flow-basis, 4:308–310
free cash flow to equity (FCFE) valuation model, 4:24
free cash flow to the firm (FCFF)
and cash flow from operations, 1:280–281
claims valuation with, 3:65
defined, 3:304n.13; 4:285
from EBIT, 4:306–308
from EBITDA, 4:306–308
environmental, social, and governance factors for, 4:332–336
FCFE from, 4:301–306
forecasting, 4:310–314
and free cash flow as returns, 4:204, 205
free cash flow valuation approach, 4:285–289
constant-growth FCFE model, 4:288–289
defining cash flow, 4:285–286
present value of FCFE, 4:286–287
sensitivity analysis of, 4:321–322
and net income, 1:280–281, 284–285
from net income, 4:289–293
present value of, 4:286–287
for private companies, 4:567–568
residual income model vs., 4:512
from statement of cash flows, 4:293–295
three-stage growth model, 4:330–336
two-stage free cash flow model, 4:323
on uses-of-free-cash-flow-basis, 4:308–310
free cash flow to the firm (FCFF) valuation model, 4:24
free cash flow valuation, 4:283–376
about, 4:284–285
environmental, social, and governance considerations in, 4:331–336
FCFE approach, 4:285–289
constant-growth FCFE model, 4:289
defining cash flow, 4:285–286
present value of FCFE, 4:287
FCFF approach, 4:285–289
constant-growth FCFF model, 4:288–289
defining cash flow, 4:285–286
present value of FCFF, 4:286–287
forecasting free cash flow, 4:289–320
analyist adjustments to CFO, 4:314–315
and capital structure, 4:317–320
FCFE and FCFF from EBIT/EBITDA, 4:306–308
FCFE and FCFF on uses-of-free-cash-flow-basis, 4:308–310
FCFF from net income, 4:289–293
FCFF from statement of cash flows, 4:293–295
forecasting FCFF and FCFE, 4:310–314
free cash flow vs. dividends, 4:315–317
mistakes with net income and EBITDA, 4:316–317
noncash charges, 4:295–301
working capital effects, 4:299–301
model variations, 4:320–336
for international stocks, 4:320–321
and sensitivity analysis of FCFE and FCFE valuations, 4:321–323
single-stage model, 4:320–321
three-stage model, 4:330–331
two-stage model, 4:323–330
for nonoperating assets, 4:337
practice problems, 4:340–358
solutions to problems, 4:359–376
Freedom of Information Act, 1:724; 6:155
free operating cash flow/total debt ratio, 6:433
free trade, 1:625–626, 715–716
French, Kenneth, 6:450n.30
FRI basis. see full repairing and insuring basis
Friedman, Milton, 3:216–217
friendly mergers, 3:291–292
friendly transaction, 3:280
front-end loading, 4:432
Frontier Communications Corp., 4:402–404, 458, 459
front-running, 1:159
front running, 6:544
FRS17 accounting rule, 423
front-running, 4:492–494
and ex ante measurement of skill, 6:512–513
ex post performance from, 6:497–499
fixed-income strategies based on, 6:506–512
full, 6:494–497
global equity strategy based on, 6:499–506
and independence of investment decisions, 6:513–514
limitations of, 6:512–515
"The Fundamental Law of Active Management" (Grinold), 6:472
fundamental options, 3:52, 55
fundamental P/E, 4:222–224
fundamentals. see also forecasted fundamentals-based valuation currency crisis warning systems based on, 1:596
currency exchange rate models based on, 1:596
defined, 4:9
forward P/E based on, 4:395–398
market-based valuation with, 4:381–382
in peer-group comparison, 4:403–405
terminal price multiples based on, 4:412
fundamental theorem of welfare economics, 1:705–706
fund flows, 6:195
funding available stable, 2:232–233
collection of, 2:233
overfunding, 6:358
private equity fund, 6:152–153
stable, 2:219, 232
travel, 1:35
underfunding, 6:358
funding costs, for regulation, 1:723–724
funding currencies, 1:572
fund manager relationships, 1:32, 42
fund mandate, change in, 1:142
Fondo de Inversiones Imobiliarias (FII), 6:83
funds borrowed, 3:165–166
closed-end, 2:216
closedet, 6:481
exchange-traded, 2:216
fair dealing between, 1:86–87
mutual, 1:720–721; 2:216
pension
market risk management, 6:358–359
private equity from, 6:155
risk budgeting, 6:363
risk, 6:152–156
closed-end private equity funds, 6:152
corporate governance terms for, 6:154–156
distribution waterfall for, 6:155
drag along rights for, 6:156
economic terms for, 6:153–154
performance of, 6:159–161, 164
risks and costs of investing, 6:156–157
structures of, 6:152–156
valuation of, 6:158–159
unlimited, 3:10
funds available for distribution (FAD), 6:105. see also adjusted funds from operations (AFFO)
funds from operations (FFO)
in Capitol Shopping Center REIT Inc. case study, 6:115, 118
growth in, 6:104
in real estate valuation, 6:105–108
future cash flows, discounting of, 6:381
expectations of, 6:383
for present value models, 4:199–201
uncertainty about, 6:381, 382
future earnings
expected volatility of, 3:148–149, 154
in residual income model, 4:516
future price risk, reducing, 5:456
futures (futures contracts), 5:322–343
arbitrageur strategy of selling, 5:335
Black option valuation model for, 5:412–414
carry arbitrage model for forwards vs., 5:340–343
currency, 5:338, 450–452
equity, 5:322
Eurodollar, 5:32
European options on, 5:412–414
fixed-income, 5:333–337
pricing, 5:334–337
unique features, 5:333–334
interest rate, 5:324–325, 448–450
pricing and valuation notation, 5:309–311
stock index, 5:453
synthetic assets with, 5:456
futures commission merchants (FCMs), 1:123
futures component, of Black model, 5:412
futures market
commodities, 6:205–225
futures returns, 6:213–225
market participants, 6:205–208
spot and futures pricing, 6:208–213
futures options, two-period binomial model for, 5:398
futures price
in carry arbitrage model, 5:343
currency futures, 5:338
defined, 5:309; 6:209
equity futures, 5:322
fixed-income futures, 5:333–337
globalization of, 6:211
interest rate futures, 5:224–325
notional for pricing, 5:309–311
and spot prices, 6:203, 204
futures value
in carry arbitrage model, 5:343
currency futures, 5:338
defined, 5:309, 310
Index

equity futures, 5:322
fixed-income futures, 5:337
interest rate futures, 5:324–325
notation for valuation, 5:309–311
FX markets. see foreign exchange markets

G
G–10, 1:587, 595
G–20, 1:707; 2:219
GAAP. see generally accepted accounting principles
G&A expenses. see general and administrative expenses
gain(s)
actuarial, 2:80, 83–85
capital, 3:139–140, 152
disclosure of, 2:138–143
from foreign currency transactions, 2:135–143
on income statement, 2:136–137
maximum
for bear spread, 5:475–476
for bull spread, 5:474
for covered calls, 5:462, 463
for protective put, 5:467
for spreads, 5:480
monetizing, 5:285–286
nonoperating, 4:528–529
purchasing power, 2:173
as quality of earnings indicators, 4:19
remeasurement, 2:152
gain-on-sale accounting, 2:358
Gala Coral, 1:281–282
Galderma, 2:375
gamma (γ), 5:423–426; 6:341. see also carry benefits
gamma risk, 5:425–426
Gap, 6:216
GARCH. see generalized autoregressive conditional heteroskedasticity
GATX Corporation, 4:400
GBM. see geometric Brownian motion
gDP. see gross domestic product
GE Capital Corporation, 3:149; 5:125
Gelbtuch, Howard, 6:57n.19
general and administrative (G&A) expenses, 6:106
General Electric (GE)
conglomerate merger, 3:281
corporate governance, 3:248–254
dDM for valuing, 4:251, 267
dividend cuts, 3:179, 182–183
financial flexibility, 3:149
value creation, 6:141, 143
generalized autoregressive conditional heteroskedasticity (GARCH), 1:483–484
generalized least squares method, 1:354
generalized linear model, 1:383
generally accepted accounting principles (GAAP). see also US GAAP
adjusted earnings, 4:386
and financial reporting quality, 2:292–293.
and sales on bill-and-hold basis, 4:427, 428
sales order backlogs, 2:2304
General Mills, 2:186–187
General Motors
dDM for valuing, 4:251, 267
debt ratings, 3:109, 110
estimations of pension obligations, 2:93, 94
special dividends, 3:129
use of residual income, 4:492
general partnerships (GPs), 6:152–156
general price index (GPI), 2:173, 176
general public, as stakeholders, 3:202, 203, 205
general purpose technologies (GPTs), 1:649n.16
general three-stage dividend discount model, 4:232–233
genetic tuning, 6:538
geographic analysis of revenue, 4:109
geometric Brownian motion (GBM), 5:377, 402–403, 412
geometric mean, 4:60, 63–64
Georgia State University, 3:262
German Deutschemarks, 1:580–581
Germany
active return and weights for equities, 6:499, 501–504
age distribution, 1:643
average hours worked, 1:646
banking regulations in, 2:60
Basel Committee membership, 2:218
benchmark for swaps, 5:29
boards of directors composition, 3:238
commercial property values, 6:456
covered bonds, 5:250
cross-border bank mergers, 3:287
dividend payout ratios, 3:159
economic growth, 1:653
equity REITs, 6:83
exports, 2:130
ex post equity risk premium, 6:445
fiscal and monetary policy, 1:587
gDP growth rate, 4:212
government bond market, 5:25
historical equity risk premium, 4:611, 63
ICT capital and investment in GDp, 1:647, 648
index-linked bonds, 6:396
labor and total factor productivity, 1:650–651
labor force participation rate, 1:643, 645
mortgage lending value, 6:24
natural resources, 1:640
OECD Principles, 3:256n.18
population growth, 1:642
portfolio weights, 6:475
private real estate valuation, 6:57
probability of government default, 6:381
R&D expenditures, 1:649
real GDP per capita, 1:621
share repurchases, 3:161
sovereign credit risk, 6:335
Getinge AB, 4:429–431
GGML. see Gordon growth model
GICS. see Global and Industry Classification System
gifts
from clients, 1:39
limiting, 1:36
from related parties, 1:38–39
gilts, 5:29. see also UK gilt curve
GIPS. see Global Investment Performance Standards
GlaxoSmithKline, plc
corporate investment categories, 2:9
financial statement presentation, 2:48–51
stock options at, 2:106–107
slide path, 6:359
Glintnir, 1:598
Global and Industry Classification System (GICS), 4:77, 399–400, 448
global economy, private equity in, 6:136
global equity strategy, 6:499–506
Global Exchange, 3:212
global financial crisis (2007–2009) and credit default swaps, 5:277, 287
credit rating agencies in, 1:724
and credit scores, 5:211
credit spreads in, 6:435
disclosure of discount window borrowers in, 1:724
economic disruption in, 4:167
equity market trends and exchange rates, 1:582–583
government support of banks during, 2:238, 239
and illiquidity, 2:232
and Lehman Brothers bankruptcy, 2:240
money market mutual fund collapse in, 1:721
real default-free yields after, 6:400–401
and regulation of financial markets, 1:717, 722
regulatory interdependency in, 1:707
sovereign debt in, 6:436
and systemic risk, 2:214
VIX in, 5:430
yield curve movement in, 5:45–46
Global Investment Performance Standards (GIPS), 1:98, 129; 6:159–160
globalization, regulation of commerce and, 1:714–715
global organizations, financial institutions as, 2:217–220
global recession, 3:179
Global Reporting Initiative (GRI), 3:261
global trends, in payout policy, 3:177–178
global warming, regulatory interdependency on, 1:707
GML. see gross margin index
going-concern assumption, 2:332; 4:8
going-concern value, 4:8, 586
going-in capitalization rate, 6:30, 34–36
gold, 6:195, 225
golden parachutes, 3:296
goodwill
in acquisition method, 2:39
adjustments to book value for, 4:419
and balance sheet quality, 2:343–346
and business combinations, 2:46–48
defined, 4:495
in equity method, 2:29–30
impairment of, 2:46–48, 381–382
and intercorporate investment in associates, 2:29–30
in mergers and acquisitions, 2:301
and net asset value per share, 6:100
Goodwill and Other Intangible Assets (ASC 350), 4:559n.5–6
Goodwill and Other Intangible Assets (SFAS 142), 4:559n.5

goodwill impairment for AOL–Time Warner merger, 4:584
in consolidation process, 2:246–48
and DuPont analysis, 2:381–382
in private company valuation, 4:556, 559–560
and residual income models, 4:495
Goodyear Tire & Rubber Company, 4:400
Google, Inc.
and cannibalization of PC market, 4:154
long-term growth, 4:168
Microsoft’s challenge of, 1:716
present value of growth opportunities, 4:221
residual income model for valuation, 4:503–504
Google Translate app, 1:246
Gordon, Myron,
Gordon growth model (GGM), 4:210–225
Gordon growth model (GGM), 4:210–225
dividend growth in, 4:217–218
dividend yield from, 4:438
earnings growth in, 4:217–218
equation, 4:210–217
equity risk premium from, 4:668–69
expected rate of return from, 4:224–225
future dividend growth pattern, 4:209
implied dividend growth rate, 4:219–220
justified P/E from, 4:422
justified P/E from, 4:222–224, 395
negative equity, 4:217
for noncallable fixed-rate perpetual preferred stock, 4:216–217
and present value of growth opportunities, 4:220–222
and price-to-earnings ratio, 4:222–224
P/S estimates from, 4:429
required return from, 4:224–225
and share repurchases, 4:218–219
and terminal price multiples, 4:412–414
in two-stage dividend discount model, 4:226
value appreciation in, 4:217–218
governance. see also corporate governance
commodity indexes and, 6:228
ESG factors, 4:17, 331–336, 5:288–289
ESG risk exposures, 3:260–262
statement of governance policies, 3:245–246
government bills, 4:61–62, 64–65. see also US Treasury bills (T-bills)
government bond(s). see also US Treasury bonds (T-bonds)
as benchmark for risky bond valuation, 5:219–222
break-even inflation rates for, 6:410–415
conventional, 6:410–413
with credit premiums, 6:425–426
in credit risk modeling, 5:202

equity risk premia relative to, 4:61, 63–65
long-term, 4:64–65
sovereign credit risk with, 6:433–436
stock returns and, 4:279
total return, GDP growth, and spread for, 6:420–421
yields on, 6:413–415
government bond market, 5:25
government budget deficits, potential GDP and, 1:631
government debt, returns for stock vs., 4:660–663
government ownership of banks, 2:239
government policy, cross-border M&As and, 3:286
government regulation(s) of commerce, 1:714–715
and competitive forces, 4:139
and long-term forecasts, 4:167–168
for private equity investments, 6:157
and taxes/subsidies in economic sectors, 1:721–723
tools for, 1:708–710
governments, as stakeholders, 3:202, 203
government-sponsored enterprises (GSEs), 5:124
government support, of banks, 2:238–239
GPMC. see guideline public company method
GPI. see general price index
GPs. see general partnerships
GPTs. see general purpose technologies
Grants, 5:211
Granovetter’s theory of economic (GDP), 168
Granger’s relationship, 4:217–218
earnings, 6:439–444
economic (see economic growth)
and equity risk premium, 4:70
exponential, 1:440–441
external, 3:283
forecasting, 4:244–246
internal, 6:110
long-term, 4:168
Malthusian model of, 1:659
negative, 4:217
no-growth company, 4:220–221
organic, 3:283
in perpetuity calculations, 4:168
population, 1:641–642
present value of growth opportunities, 4:220–222
profit, 3:204–206
retail sales, 6:94–95
revenue, 3:209
sales, 3:313, 328–330
 supernormal, 4:225
transitional, 1:668–670
value of, 4:220–222

growth accounting equation, 1:637–638
growth capital expenditures, 4:133
growth options, 3:52
growth phase, company, 4:225, 413–414
growth rate
compound annual, 4:157, 158
in dividend discount valuation, 4:241–247
Index I-43

Cumulative_Ind_12 43

I

forecasting of, 6:110
implied dividend, 4:219–220
longer-term, 6:111–113
mature, 4:226
and retention rates, 4:243–246
steady state, 1:660–666
and capital deepening, 1:660–661
in China, Japan, and Ireland, 1:661–662
as equilibrium, 1:662–665
impact of parameters on, 1:663–665 sustainable, 4:238, 241–242
in three-stage dividend discount model, 4:234–236
in two-stage model for free cash flow valuation, 4:324–330
growth relative to GDP growth approach, 4:111
growth stocks, 6:448–450
Grupo Aeroportuario del Sureste, 4:169
Grupo Schincariol, 4:137
GSEs. see government-sponsored enterprises
GTM. see guideline transactions method
Guidant Corporation, 3:278–279
guideline assets, 4:379
guideline companies, 4:379
guideline public company method (GPCM), 4:570, 579–583
Guidelines and Regulations on Corporate Governance (Monetary Authority of Singapore), 3:255–256
guideline transactions method (GTM), 4:579, 584–586
guider, Dutch, 1:640n.13

H

Halliburton Co., 3:214; 4:14
Hammond, P. Brett, 4:71
Hansen’s method of adjusting standard errors, 1:358–359
Hansen–White standard errors, 1:358n.49
hard capital rationing, 3:42
harmonic mean, 4:457–459
Harmonised Index of Consumer Prices (HICP)
bias in forecasts of, 1:303–305
and inflation, 1:273–274
linear regression of forecasts for, 1:291–292
“Harrod neutral” technical change, 1:660n.21
Hartford Financial Services Group, 2:269, 270
Harvard University, 3:263
Harvey, Campbell R., 4:90n.53
Hawawini, Gabriel, 4:133n.4, 133n.5
hazard rate, 5:205, 278–280
HCA, Inc., 6:150
HDU. see High Dividend Universe
health care in developing vs. developed countries, 1:625
government subsidies and regulation for, 1:721–722
US cost of, 2:95–97
health care real estate investment trusts, 6:91, 93–95
health insurance policies, 2:273
HealthSouth, 3:210
hedge fund managers, market risk management by, 6:357–358
hedge ratios in one-period binomial model, 5:381, 383
in two-period binomial model, 5:388
hedgers, in commodity markets, 6:206
hedges
BSM model and, 5:406–407
derivatives as, 2:258
as investment industry intermediaries, 2:216
optimal number of units as, 5:421
hedge wrappers, see collars
hedging of consumption, 6:438–439
of foreign exchange risk, 2:143
with index credit default swaps, 5:275
strategies for, 4:118, 150–151
Hedging Pressure Hypothesis, 6:214–216
hedging risk, BSM model and, 5:422
hedonic index, 6:59–60
Heineken NV in Brazilian beer market, 4:137
effective tax rate reconciliation—disclosure, 2:184–185
foreign currency transactions, 2:140–142
in Russian beer market, 4:140
in UK beer market, 4:138
held for trading investments, 2:11
held-to-maturity investments impairments for, 2:16
intercorporate investments in, 2:10–11
reclassification of, 2:14–15
held-to-maturity (HTM) securities, 2:249
Henkel, 4:120, 121
Hennessy, 4:175
Henry, E., 4:449n.57
Herfindahl–Hirschman Index (HHI), 3:300–302
Hertz, David, 1:528–529
heterogeneity, real estate, 6:9–10
heteroskedasticity, 1:362–363
and assumptions of regression analysis, 1:349–355
conditional, 1:352–354, 481–484
consequences of, 1:349–351
correcting for, 1:354–355
defined, 1:349, 481
testing for, 1:352–354
heteroskedasticity-consistent standard errors, 1:354n.42
Hewlett, Bill, 3:215
Hewlett-Packard Company (HP), 2:356; 3:215
HFT. see high-frequency trading
HHI. see Herfindahl–Hirschman Index
“Hicks neutral” technical change, 1:660n.21
HICP. see Harmonised Index of Consumer Prices
hidden value, from mergers and acquisitions, 3:286
High Dividend Universe (HDU), 3:183
highest and best use, 6:26–27
highest requirement, following, 1:28
high-frequency trading (HFT), 1:253;
6:535–540. see also algorithmic trading and high-frequency trading
highly inflationary economies, foreign currency financial statements in, 2:154–157
high minus low (HML) risk factor, 4:80;
6:284, 294–296
high-quality earnings, 2:229, 290–293, 310
high-quality financial reporting, 2:291–293
high tech bubble, 6:407
high yield bonds, 1:279
high-yield currencies in carry trades, 1:572–573
real value of, 1:582
hiring, 3:219–220
historical analysis, business context for valuation and, 4:13
historical average earnings per share, 6:388
historical data, probability distributions based on, 1:520–521
historical default probability, 5:203, 204
historical estimation of equity risk premium, 4:59–68
adjusted, 4:63–68
arithmetic/geometric mean, 4:63–64
in developing markets, 4:66–67
for long-term government bonds vs. short-term government bills, 4:64–65
and returns of stocks vs. government debt, 4:60–63
of interest rate volatility, 5:85
historical exchange rates, 2:145
historical P/E. see trailing P/E
historical scenarios, 6:344–346. see also scenario analysis; scenario risk measures
historical simulation method parametric method vs., 6:329–330
VaR estimation, 6:327–330
historical tables, research report, 4:36
historical valuation multiples, 4:166–167
HKex Group, 6:207
HML risk factor. see high minus low risk factor
H-model, 4:226, 230–233
holding period returns, 4:52–53; 6:58
holding periods
DDM for single, 4:207–208
hold-out sample, 1:391n.86
Ho–Lee model, 4:52–44
Home Depot, 1:500–501, 523–526;
3:208
homemade leverage, 3:135n.9
home prices, demand for multi-family properties and, 6:21
homogeneity, in securitized debt, 5:248–249
homoskedasticity assumption, 1:290, 349, 481
Honda Motor Company, 4:409–410

Cumulative_Ind_12 43

June 14, 2018 9:39 PM
The Identification of Contributory Assets and the Calculation of Economic Rents (Appraisal Foundation), 4578, 596
idle cash, share repurchase with, 2164–165
IEA. see International Energy Agency
IFRS. see International Financial Reporting Standards
IGBT. see International Glossary of Business Valuation Terms
Illmanen, Antti, 31
illegality, disclosure of, 1104
illiquidity, of commercial real estate, 453–454
illiquidity discounts, 430
Hewlett-Packard Company, 2
HGM, 4
Hua Xia Bank Company Limited, 29
Hungary, 3
horizontal merger, 3280
Hormel Foods, 4202–204
hospitatity properties, 612
hostile mergers, 3282, 292–293
hostile transactions, 3280
hotel real estate investment trusts, 691, 93–95
hot issue securities, 1184
hours worked, average, 1646
HP. see Hewlett-Packard Company
HSBC Holdings plc, 2220
asset quality, 2225–228
capital position, 2222–223
earnings, 2229–232
liquidity position, 2234–236
market risk, 2236–238
HTM. see held-to-maturity securities
Huamao Property Holdings, Ltd., 226
Hua Xia Bank Company Limited, 226
hubris hypothesis, 3318–319
human capital, 1639, 646–647; 4415
Hungary, 3256n.18
hurdle rates, 6154, 365
hybrid approach
modeling operating costs, 4114
modeling revenue, 4111, 112
hybrid REITs, 682
hyperinflationary economies, 2172–176
hyperparameters, neural network, 1386
hypothesis testing
with linear regression model for one variable, 1297–305
bias in inflation forecasts, 1303–305
company value and returns to invested capital, 1301–303
estimating beta of stock, 1299–301
with multiple linear regression model, 1341–343
hypothetical scenarios, 6346–347
I
IAIS. see International Association of Insurance Supervisors
IAS19 accounting rule, 6423
IASB. see International Accounting Standards Board
IBM. see International Business Machines Corporation
IC. see information coefficient
ICB. see Industrial Classification Benchmark
ICE. see Intercontinental Exchange
Iceland, 1598–599; 3256n.18
ICT capital. see information, computer, and telecommunications capital idea generation, in capital budgeting process, 36
I__
Index

excess earnings method, 4:577–578
free cash flow method, 4:575
required rate of return from, 4:570–574
income approach to private equity valuation, 6:138
income approach to real estate valuation, 6:27–46
advantages and disadvantages, 6:45
cost and sales comparison approaches vs., 6:25–27
direct capitalization method, 6:29–33
discounted cash flow method, 6:33–45
advanced, 6:41–45
discount rate and cap rate, 6:33
equivalent yield, 6:40–41
and lease structure, 6:37–40
terminal capitalization rate, 6:34–36
errors in analysis, 6:45–46
in Germany, 6:56
net operating income in, 6:28–29
income measures, 3:57–65
basic capital budgeting model as, 3:58
for economic and accounting income, 3:58–61
for economic profit, 3:62–63
for residual income, 3:63–64
income models of valuation, 4:23n.8
income-producing real estate properties, 6:11. see also
commercial real estate
income return, for appraisal-based indexes, 6:58–59
income statement modeling, 4:108–132
non-operating costs, 4:126–131
operating costs, 4:114–126
revenue, 4:108–114
income statements consolidated, 2:49–51, 300–301
foreign currency, 2:173–174
gains and losses on, 2:136–137
IFRS and US GAAP on, 4:108
of Nestlé, 2:375–376
periodic pension costs in, 2:82–83, 98–101
pro forma, 4:172–177
corporate income tax, 4:177
cost of goods sold, 4:173
non-operating expenses, 4:176–177
operating profit, 4:175–176
revenue forecasts, 4:172–173
selling, general, and administrative costs, 4:173–175
reclassifications on, 2:298
income tax, corporate, 4:128–131, 177
incremental cash flows, 3:9, 35
incremental VaR (IVaR), 6:337
incumbent companies, rivalries with, see established rivals
incurable physical deterioration, 6:46
indemnification assets, 2:38–39
indenture, 3:153
independence of board of directors, 3:236–237, 250–251
of chairman of board, 3:237–238
of committee members, 3:252
of investment decisions, 6:513–514
of legal and expert counsel, 3:245
Independence and Objectivity [Standard [B]]
application of the standard, 1:36–42
in case studies, 1:215, 219
compliance procedures, 1:35–36
guidance, 1:230–35
buy-side clients, 1:31
credit rating agency opinions, 1:33–34
fund manager and custodial relationships, 1:32
influence in manager selection/procurement process, 1:34
investment banking relationships, 1:32–33
issuer-paid research, 1:34–35
performance measurement and attribution, 1:33
public companies, 1:33
travel funding, 1:35
text of, 1:16, 30
independence policies, 1:36
independent analysis, 1:69
independent contractors, 1:108–109
independent practice, 1:101
independent projects, 3:10
independent regulators, 1:703
independent variable(s)
assumptions about, 1:290, 334, 335
correlation of errors with, 1:372–376
defined, 1:286, 328–329
lagged, 1:36, 448
and lagged dependent variables, 1:355–356
linear regression model with one, 1:286–289, 305–308
measurement errors with, 1:372–376
model misspecification due to, 1:365–366
omission of, 1:365–366
time-series analysis with multiple, 1:487–488
index arbitrage, 6:536
index CDS, 5:270, 274–275
indexes. see also specific indexes
alternative index approaches, 6:301
commodity futures, 6:230–234
enhanced index investment strategy, 6:253–254
and estimation of beta, 4:72
hedonic, 6:59–60
managing to, 1:93
profitability, 3:16–17
real estate, 6:57–61
and relative strength indicators, 4:454–456
repeat sales, 6:59–60
rules-based, 6:228
security market, 6:473
selection-based, 6:228
stock, 1:277–278, 5:321
as value added benchmarks, 6:473
volatility, 5:430–431
Index Industry Association, 6:228
indexing, 6:253
index-linked bonds, 6:396–401
India
Basel Committee membership, 2:218
common law, 3:113
economic growth, 1:654, 656–658, 679–680
economic statistics of Brazil vs., 1:694–696, 699
education spending, 1:624
equity REITs, 6:83
equity risk premium, 4:66–67, 90
exports and foreign direct investment in, 1:681
foreign investment in, 1:625
ICT capital and investment in GDP, 1:647, 648
inflation-indexed bonds, 6:396
labor and total factor productivity, 1:651
labor supply, 1:641
natural resources, 1:640
population growth, 1:642
precious metals, 6:195
R&D expenditures, 1:650
real default-free interest rates, 6:393
real GDP per capita, 1:621, 623, 677
share repurchases, 3:161
indirect costs, of regulation, 1:719
indirect lending, 6:6
indirect ownership, of real estate, 6:6
individual investors
alternative data from, 1:243, 244
investment management for, 6:249
return requirement and risk tolerance of, 6:261
individual stock selection, 6:505–506
Indonesia
Basel Committee membership, 2:218
commodity exchanges, 6:207
natural resources, 1:640
real GDP per capita, 1:621, 677
Indonesia Financial Services Authority, 2:218
Industrial Classification Benchmark (ICB), 4:77, 399, 400
industrial conglomerates, 4:800
industrial (base) metals
average annual sector roll return, 6:224, 225
commodity life cycle, 6:199–200
as commodity sector, 6:194
industrial properties, 6:11–12, 20
industrial real estate investment trusts, 6:91–93
industrial sectors and credit quality, 6:431–432
selection of stock based on, 6:505–506
industry(-ies)
classifications of, 4:399–401
comparison of company’s earnings with, 2:323
price multiples for, 4:405
industry analysis, 4:12–14. see also
financial forecasting
industry costs, 1:450–151
industry experts, 1:59–60
industry factors, 4:581, 6:293
industry life cycle, 3:287–288
industry overview, 4:170–171
industry sales, 4:145–147
industry structure, as context for valuation, 4:12–13

Cumulative_Ind_12 45
June 14, 2018 9:39 PM
inflation, 4:145–153
bias in forecasts of, 1:303–305
break-even inflation rate, 6:410–415
and capital budgeting analysis, 3:37–38
and capital structure, 3:114, 115
cost projection effects, 4:150–153
company costs, 4:151–153
industry costs, 4:150–151
input costs at Lindt and Nestlé, 4:151–153
due diligence for real estate investments, 6:190
and equity risk premium, 4:70
and exchange rates, 1:565–566
and Fed Model, 4:408
and foreign currency financial statements in highly inflationary economies, 2:154–157
in hyperinflationary economies, 2:172–176
and gold, 6:195
and Harmonised Index of Consumer Prices, 1:273–274, 291–292
and interest rates, 1:352–354, 522
in macroeconomic factor models, and interest rates, 1:352–354, 522
6:594
6:191
4
and real exchange rates, 1:351–352, 522
and publicly traded real estate sales projection effects, 4:292n.3
4:167–168
information account, 1:77
on applicable laws, 1:27
asymmetric, 3:105, 207–208
confidential
about CFA program, 1:165–166
accidental disclosure of, 1:104–105
of firm, 1:115
total disclosure of, 1:103–104
possessing, 1:103
considering, before taking action, 1:77
decision-useful, 2:292
dissemination of, 1:60, 84–85, 161–162
dividends as signals of, 3:141–144
electronic, 1:102
for equity valuation, 4:16–22
manipulation of, 3:213
material, 1:577
4:177
material nonpublic (see material nonpublic information)
information misrepresentation of (see misrepresentation)
nonpublic
acting on, 1:63, 66
analyst recommendations as, 1:65–66
controlling, 1:64
defined, 1:58
standards for priority of transactions with, 1:158
out-of-date, 1:52–53
potential misrepresentation of, 1:49
for private equity investments, 6:139–140
for private real estate equity investments, 6:16
quality of, 1:531, 4:557–558
regulatory, 4:16
relevant, 2:292n.3
retention of, on new media, 1:147
risk, 2:346–359
auditor’s opinions, 2:346–350
event-specific disclosures, 2:358
financial press, 2:358–359
legal proceedings and contingencies, 2:351–355
Management Discussion and Analysis, 2:355–357
segment, 2:241
verification of outside, 1:47
information, computer, and telecommunications (ICT) capital, 1:639, 647–649
informational symmetry, 4:706
informational friction, 1:706
information-based manipulation of, 1:68, 72–73
information coefficient (IC) in correlation triangle, 6:489
and expected active returns, 6:500–501
in out-of-sample forecast comparisons, 1:457–458
testing for ARCH(1), 1:482–483
inflation risk, 4:84, 6:301, 302
inflection points, long-term forecast, 4:167–168
information account, 1:77
on applicable laws, 1:27
asymmetric, 3:105, 207–208
confidential
about CFA program, 1:165–166
accidental disclosure of, 1:104–105
of firm, 1:115
total disclosure of, 1:103–104
possessing, 1:103
considering, before taking action, 1:77
decision-useful, 2:292
dissemination of, 1:60, 84–85, 161–162
dividends as signals of, 3:141–144
electronic, 1:102
for equity valuation, 4:16–22
manipulation of, 3:213
material, 1:577
4:177
material nonpublic (see material nonpublic information)
information misrepresentation of (see misrepresentation)
nonpublic
acting on, 1:63, 66
analyst recommendations as, 1:65–66
controlling, 1:64
defined, 1:58
standards for priority of transactions with, 1:158
out-of-date, 1:52–53
potential misrepresentation of, 1:49
for private equity investments, 6:139–140
for private real estate equity investments, 6:16
quality of, 1:531, 4:557–558
regulatory, 4:16
relevant, 2:292n.3
retention of, on new media, 1:147
risk, 2:346–359
auditor’s opinions, 2:346–350
event-specific disclosures, 2:358
financial press, 2:358–359
legal proceedings and contingencies, 2:351–355
Management Discussion and Analysis, 2:355–357
segment, 2:241
verification of outside, 1:47
information, computer, and telecommunications (ICT) capital, 1:639, 647–649
informational symmetry, 4:706
informational friction, 1:706
information-based manipulation of, 1:68, 72–73
information coefficient (IC) in correlation triangle, 6:489
and expected active returns, 6:500–501
in full fundamental law of active management, 6:495
and investor skill, 6:512–513
and mean–variance optimal weights, 6:490
information ratio, 6:480–482
ex ante and ex post, 6:481
expected value added based on, 6:486–487
in fixed-income strategies, 6:507–508, 510
in optimal portfolio construction, 6:483, 485, 487
as relative reward-to-risk measure, 6:477
in risk attribution, 6:296–297
Sharpe ratio vs., 6:481–482
infrastructure, public, 1:653
initial coin offerings, 1:256
initial conversion price, 5:168
initial public offerings (IPOs) appraisals for, 4:10
exiting private equity investments with, 6:149–150
fair dealing in, 1:87
limited participation in, 1:158–159
manager-shareholder conflicts in, 3:231
private company valuation for, 4:559
quantifying lack of marketability discounts with, 4:591–592
risk capital in, 3:203–204
initiation date in binomial option valuation model, 5:378, 379
forward value at, 5:311
in-process research and development, 2:55–56
input costs at Carrefour SA, 4:149–150
and company costs, 4:151–153
and company sales, 4:147–149
and industry costs, 4:151
and industry sales, 4:145–147
at Nestlé and Lindt, 4:151–153
inputs estimation of, 1:526–527
in fair value hierarchy, 2:229–230
model, 1:72
probabilistic, 1:522
simulation, 1:526–527, 529
valuation, 4:182–183
in-sample forecast errors, 1:456
insider trading and algorithmic surveillance, 6:543–544
regulations for, 1:709, 710
insider transactions, 3:247–248
insolvency laws, in IOSCO framework, 1:714
Institute of Business Appraisers, 4:560n.9
institutional environment, leverage in, 3:112–114
institutional investors, 5:452–453, 6:103, 249
Institutional Shareholder Services (ISS), 3:362
<table>
<thead>
<tr>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>insurance</td>
</tr>
<tr>
<td>casualty, 2:265</td>
</tr>
<tr>
<td>CDS vs., 5:276–277</td>
</tr>
<tr>
<td>health insurance policies, 2:273</td>
</tr>
<tr>
<td>liability, 2:265</td>
</tr>
<tr>
<td>life, 2:273; 6:360</td>
</tr>
<tr>
<td>portfolio, 6:364</td>
</tr>
<tr>
<td>property insurance policies, 2:266</td>
</tr>
<tr>
<td>protective puts as, 5:464–465</td>
</tr>
<tr>
<td>insurance companies, 2:217; 3:300. see also specific types</td>
</tr>
<tr>
<td>insurance company analyses, 2:264–280</td>
</tr>
<tr>
<td>life and health insurance companies, 2:273–280</td>
</tr>
<tr>
<td>capitalization, 2:280</td>
</tr>
<tr>
<td>earnings characteristics, 2:276–277</td>
</tr>
<tr>
<td>investment returns, 2:278–279</td>
</tr>
<tr>
<td>liquidity, 2:279–280</td>
</tr>
<tr>
<td>products and distributions, 2:273–276</td>
</tr>
<tr>
<td>property and casualty insurance companies, 2:265–273</td>
</tr>
<tr>
<td>capitalization, 2:273</td>
</tr>
<tr>
<td>earnings characteristics, 2:266–270</td>
</tr>
<tr>
<td>investment returns, 2:270–271</td>
</tr>
<tr>
<td>liquidity, 2:271–273</td>
</tr>
<tr>
<td>products and distributions, 2:265–266</td>
</tr>
<tr>
<td>Insurance Theory, 6:213–214</td>
</tr>
<tr>
<td>insurers, market risk management by, 6:359–360</td>
</tr>
<tr>
<td>intangible assets</td>
</tr>
<tr>
<td>in excess earnings method, 4:578</td>
</tr>
<tr>
<td>in pre-money valuations, 6:149</td>
</tr>
<tr>
<td>and private company valuation, 4:556</td>
</tr>
<tr>
<td>in residual income valuations, 4:526–528</td>
</tr>
<tr>
<td>Intangible Assets (IAS 38), 4:559n.5, 578n.29</td>
</tr>
<tr>
<td>integration of financial statement analysis, 2:371–414</td>
</tr>
<tr>
<td>in financial statement analysis framework, 2:371–372</td>
</tr>
<tr>
<td>long-term equity investment case study, 2:373–402</td>
</tr>
<tr>
<td>conclusions and recommendations, 2:401–402</td>
</tr>
<tr>
<td>data analysis, 2:374–401</td>
</tr>
<tr>
<td>data collection, 2:373</td>
</tr>
<tr>
<td>data processing, 2:374</td>
</tr>
<tr>
<td>follow-up, 2:402</td>
</tr>
<tr>
<td>purpose for analysis, 2:373</td>
</tr>
<tr>
<td>off-balance sheet leverage from operating leases case study, 2:403–406</td>
</tr>
<tr>
<td>conclusions and recommendations, 2:406</td>
</tr>
<tr>
<td>data analysis, 2:404–406</td>
</tr>
<tr>
<td>data collection, 2:403</td>
</tr>
<tr>
<td>data processing, 2:404</td>
</tr>
<tr>
<td>follow-up, 2:406</td>
</tr>
<tr>
<td>purpose for analysis, 2:403</td>
</tr>
<tr>
<td>practice problems, 2:408–412</td>
</tr>
<tr>
<td>solutions to problems, 2:413–414</td>
</tr>
<tr>
<td>integrity, 1:55; 169; 717</td>
</tr>
<tr>
<td>Integrity of Capital Markets [Standard of Professional Conduct II], 1:56–73</td>
</tr>
<tr>
<td>Market Manipulation [Standard II(B)], 1:68–73</td>
</tr>
<tr>
<td>application of the standard, 1:69–73</td>
</tr>
<tr>
<td>guidance, 1:68–69</td>
</tr>
<tr>
<td>text of, 1:16, 68</td>
</tr>
<tr>
<td>Material Nonpublic Information [Standard II(A)], 1:56–67</td>
</tr>
<tr>
<td>application of the standard, 1:63–67</td>
</tr>
<tr>
<td>compliance procedures, 1:560–63</td>
</tr>
<tr>
<td>guidance, 1:56–60</td>
</tr>
<tr>
<td>text of, 1:16, 56</td>
</tr>
<tr>
<td>Intel Corporation</td>
</tr>
<tr>
<td>functional currency, 2:131</td>
</tr>
<tr>
<td>initial public offering, 3:203–204</td>
</tr>
<tr>
<td>market expectations and stock price, 4:10–11</td>
</tr>
<tr>
<td>predicting gross margins for, 1:451–453</td>
</tr>
<tr>
<td>sales, 1:447, 487</td>
</tr>
<tr>
<td>intellectual property, 1:715; 3:210</td>
</tr>
<tr>
<td>intensity-based default rate models, 5:216</td>
</tr>
<tr>
<td>interbank market, bid–offer currency prices from, 1:541–543</td>
</tr>
<tr>
<td>Interco/Canadaco case study, 2:157–171</td>
</tr>
<tr>
<td>Intercontinental Exchange (ICE), 5:324n.9, 6:205, 207</td>
</tr>
<tr>
<td>interconnected investments, 2:7–73</td>
</tr>
<tr>
<td>about, 2:8</td>
</tr>
<tr>
<td>in associates, 2:23–35</td>
</tr>
<tr>
<td>amortization of excess purchase price, 2:28–30</td>
</tr>
<tr>
<td>disclosure, 2:34</td>
</tr>
<tr>
<td>equity method of accounting for, 2:24–35</td>
</tr>
<tr>
<td>fair value option, 2:30</td>
</tr>
<tr>
<td>and goodwill, 2:29–30</td>
</tr>
<tr>
<td>impairment, 2:31</td>
</tr>
<tr>
<td>investment costs in excess of book value, 2:27–28</td>
</tr>
<tr>
<td>issues for analysts with, 2:34–35</td>
</tr>
<tr>
<td>and ROE, 2:383</td>
</tr>
<tr>
<td>and sale of inventory, 2:32–34</td>
</tr>
<tr>
<td>and transactions with associates, 2:31–34</td>
</tr>
<tr>
<td>business combinations, 2:35–56</td>
</tr>
<tr>
<td>acquisition method, 2:38–42</td>
</tr>
<tr>
<td>comparability issues, 2:55–56</td>
</tr>
<tr>
<td>consolidation process, 2:42–48</td>
</tr>
<tr>
<td>financial statement presentation after, 2:48–51</td>
</tr>
<tr>
<td>IFRS and US GAAP comparability issues, 2:55–56</td>
</tr>
<tr>
<td>pooling of interests and purchase methods, 2:37</td>
</tr>
<tr>
<td>special purpose entities, 2:51–55</td>
</tr>
<tr>
<td>types of, 2:35–36</td>
</tr>
<tr>
<td>corporate investment categories, 2:9–10</td>
</tr>
<tr>
<td>in financial assets, 2:10–22</td>
</tr>
<tr>
<td>available-for-sale investments, 2:12–14</td>
</tr>
<tr>
<td>classification and measurement, 2:20–22</td>
</tr>
<tr>
<td>fair value through profit or loss, 2:11–12</td>
</tr>
<tr>
<td>held-to-maturity investments, 2:10–11</td>
</tr>
<tr>
<td>impairments, 2:15–19</td>
</tr>
<tr>
<td>loans and receivables, 2:12–14</td>
</tr>
<tr>
<td>reclassification of investments, 2:14–15</td>
</tr>
<tr>
<td>2:28–30</td>
</tr>
<tr>
<td>2:34–35</td>
</tr>
<tr>
<td>2:42–48</td>
</tr>
<tr>
<td>2:55–56</td>
</tr>
<tr>
<td>2:37</td>
</tr>
<tr>
<td>2:35–36</td>
</tr>
<tr>
<td>2:9–10</td>
</tr>
<tr>
<td>2:10–22</td>
</tr>
<tr>
<td>2:12–14</td>
</tr>
<tr>
<td>2:20–22</td>
</tr>
<tr>
<td>2:11–12</td>
</tr>
<tr>
<td>2:10–11</td>
</tr>
<tr>
<td>2:15–19</td>
</tr>
<tr>
<td>2:12–14</td>
</tr>
<tr>
<td>2:14–15</td>
</tr>
<tr>
<td>practice problems, 2:58–68</td>
</tr>
<tr>
<td>solutions to problems, 2:69–73</td>
</tr>
<tr>
<td>interdepartmental communications, 1:61</td>
</tr>
<tr>
<td>interdepartmental referral arrangements, disclosure of, 1:163</td>
</tr>
<tr>
<td>interdependencies, regulatory, 1:706–708</td>
</tr>
<tr>
<td>interest</td>
</tr>
<tr>
<td>accrued, 5:333, 334</td>
</tr>
<tr>
<td>carried, 4:587n.37; 6:153</td>
</tr>
<tr>
<td>effective, 2:11n.4</td>
</tr>
<tr>
<td>FCFF and after-tax, 4:290</td>
</tr>
<tr>
<td>under GAAP and IFRS, 4:293–294</td>
</tr>
<tr>
<td>interest coverage ratio, 2:406</td>
</tr>
<tr>
<td>interest expense, 4:127–128</td>
</tr>
<tr>
<td>interest income, 4:126–127</td>
</tr>
<tr>
<td>interest-only loans, 6:62</td>
</tr>
<tr>
<td>interest paid, 4:432</td>
</tr>
<tr>
<td>interest rate caps, 5:416</td>
</tr>
<tr>
<td>interest rate floors, 5:416</td>
</tr>
<tr>
<td>interest rate forwards, 5:324–333</td>
</tr>
<tr>
<td>interest rates and FRA payments, 5:326–328</td>
</tr>
<tr>
<td>and Libor spot market, 5:324–325</td>
</tr>
<tr>
<td>pricing of FRAs, 5:328–330</td>
</tr>
<tr>
<td>risk exposure with, 5:450</td>
</tr>
<tr>
<td>time points in transactions, 5:325–326</td>
</tr>
<tr>
<td>valuation of FRAs, 5:331–333</td>
</tr>
<tr>
<td>interest rate futures in derivatives strategies, 5:448–450</td>
</tr>
<tr>
<td>pricing and valuation of, 5:324–325</td>
</tr>
<tr>
<td>interest rate options binomial option valuation model for, 5:399–401</td>
</tr>
<tr>
<td>Black option valuation model for, 5:414–417</td>
</tr>
<tr>
<td>deferred payoffs for, 5:400n.8</td>
</tr>
<tr>
<td>rho for, 5:429n.17</td>
</tr>
<tr>
<td>interest rate parity covered with currency forwards and futures, 5:338</td>
</tr>
<tr>
<td>equation, 1:550</td>
</tr>
<tr>
<td>in exchange rate determination, 1:558 and international parity conditions, 1:570</td>
</tr>
<tr>
<td>in prediction of spot rates, 1:560–564</td>
</tr>
<tr>
<td>forward rate parity, 1:560–564</td>
</tr>
<tr>
<td>international, 1:557–572</td>
</tr>
<tr>
<td>covered interest rate parity, 1:558</td>
</tr>
<tr>
<td>Fisher effect and real interest rate parity, 1:567–570</td>
</tr>
<tr>
<td>forward rate parity, 1:560–564</td>
</tr>
<tr>
<td>predictors of future spot rates, 1:560–564</td>
</tr>
<tr>
<td>and purchasing power parity, 1:564–567</td>
</tr>
<tr>
<td>relationships among conditions, 1:570–572</td>
</tr>
<tr>
<td>uncovered interest rate parity, 1:558</td>
</tr>
<tr>
<td>real, 1:567–570</td>
</tr>
<tr>
<td>uncovered and carry trades, 1:572</td>
</tr>
<tr>
<td>in exchange rate determination, 1:558–560</td>
</tr>
<tr>
<td>and international parity conditions, 1:570, 571</td>
</tr>
<tr>
<td>in prediction of spot rates, 1:560–564</td>
</tr>
</tbody>
</table>
interest rate risk, 5:150–161
banks’ exposure to, 2:236
duration, 5:151–158
effective duration, 5:151–155
key rate durations, 5:156–158
one-sided durations, 5:155–156
effective convexity, 5:158–161
and forward exchange rates, 1:554
for pension funds, 6:358–359
Royal Dutch Shell’s disclosure of, 2:353
and swaps, 5:276
interest rates, 5:5–74
about, 5:6
and arbitrage-free forwards, 5:312
average, 2:255–256
for binomial trees, 5:88
and business cycles, 6:395–402, 404–409
default-free
and business cycles, 6:395–402
determination of, 6:384–392
and economic growth, 6:392–395
inflation on, 6:409
real, 6:384–392, 395–402
short-term, 6:409, 417
and default-free yield curves, 6:419–420
differentials in, 1:580–582
fixed, in swaps, 5:449
forward rates, 5:8–24
active bond portfolio management, 5:20–24
and binomial interest rate trees, 5:82–85
in construction of binomial trees, 5:88–91
defined, 5:7
in liquidity preference theory, 5:34
in local expectations theory, 5:33–34
and spot prices/rates, 5:8–12
from yield curve, 5:129
and FRA payments, 5:326–328
and inflation, 1:352–354, 522
mean reversion of, 5:329–40
nominal, 1:352–354, 567–568
P/E of market and, 4:408–409
practice problems, 5:56–66
real, 1:352–354, 631
default-free real interest rates, 6:384–392, 395–402
differentials in, 1:580–582
in Fisher effect, 1:352–354
and potential GDP, 1:631
real risk-free interest rates, 6:395
risk-free, 5:428, 429, 6:395
sensitivity of duration to (see effective convexity)
short-term nominal, 6:403
solutions to problems, 5:67–74
and spot/forward exchange rates, 1:570–572
spot rates, 5:6–24
active bond portfolio management, 5:20–24
from benchmark par curve, 5:82
current forward curve and evolution of, 5:21–22
defined, 5:7
and forward prices/rates, 5:8–12
and spot curve, 5:7
valuation of option-free bonds with, 5:79–80
from yield curve, 5:128–129
yield to maturity, 5:16–19
in swap pricing, 5:350
swap rate curve, 5:24–33
about, 5:24–25
determination of, 5:27–28
reasons for valuing bonds with curve, 5:25–26
spread as price quotation convention, 5:30–33
and swap spread, 5:29–31
in valuation process, 5:26–27
term structure, 5:33–45
arbitrage-free models, 5:42–45
calibrating binomial interest rate trees to match, 5:92–94
equilibrium models, 5:38–42
liquidity preference theory, 5:34
local expectations theory, 5:33–34
modern models, 5:38–45
preferred habitat theory, 5:35–36
segmented markets theory, 5:35
traditional theories, 5:33–38
on US Treasury bills, 6:404–409
and valuation of convertible bonds, 5:175
volatility of (see interest rate volatility)
yield curve factor models, 5:45–54
bonds’ exposure to yield curve movement, 5:45–47
managing yield curve risks, 5:51–53
maturity structure of yield curve volatilities, 5:50–51
shape of yield curve, 5:47–50
interest rate swaps, 5:345–349
cash flows in, 5:345–346
currency swaps vs., 5:450
in derivatives strategies, 5:492–493
pricing, 5:27, 346–348
risk exposures with, 5:448–449
valuation, 5:348–349
interest rate trees. see binomial interest rate trees
interest rate volatility about, 5:132–134
and binomial interest rate trees, 5:83, 221
callable bonds with, 5:137–140
Callable bonds without, 5:129–132
changes in, 5:226–227
estimating, with binomial interest rate trees, 5:85
in Ho–Lee model, 5:44
and option-adjusted spread, 5:147–149
and putable bonds, 5:132–134
putable bonds with, 5:137–138
In tests of bond analytics, 5:178
and yield curve volatility, 5:50
interest received, 4:432
interests
business
minority, 4:411n.53
noncontrolling, 2:43–46
pooling of interests accounting method, 2:37, 42n.29
uniting of interests accounting method, 2:37
client, 1:78
Interests in Joint Ventures (IAS 31), 2:9
internal controls, 3:242
internal growth, in forecasting of growing rates, 6:110
internal rate of return (IRR)
for capital budgeting, 3:11–12, 18–25
multiple IRR problem, 3:22–24
no IRR problem, 3:24–25
capital decisions based on, 3:56
and equivalent yield, 6:40–41
and fund performance, 6:159–160, 164
gross, 6:160
leverage vs. unleveraged, 6:63–64
net, 6:160
and net operating income, 6:30–31
in net present value, 4:57–58, 69
ranking conflicts of NPV and IRR, 3:18–22
due to cash flow patterns, 3:18–20
due to project scale, 3:21–22
venture capital method of valuation in terms of, 6:169–171
for zero-coupon bonds, 5:206–207
internal stakeholders, 3:202
International Accounting Standards, 4:204n.10
Consolidated and Separate Financial Statements (IAS 27), 2:36
The Effects of Changes in Foreign Exchange Rates (IAS 21), 2:12n.5, 155–157
Employee Benefits (IAS 19), 2:76
Financial Instruments (IAS 9), 2:10
Financial Instruments: Recognition and Measurement (IAS 39), 2:10–19
Financial Reporting in Hyperinflationary Economies (IAS 29), 2:154
IAS19 accounting rule, 6:423
Impairment of Assets (IAS 36), 4:559n.5–6
Intangible Assets (IAS 38), 4:559n.5, 578n.29
Interests in Joint Ventures (IAS 31), 2:9
Investments in Associates and Joint Ventures (IAS 28), 2:9, 10, 23
Separate Financial Statements (IAS 27), 2:8–10
International Accounting Standards Board (IASB)
on business combinations, 2:36, 37
on fair value expensing of stock options, 3:24n.15
on intercorporate investments, 2:8
regulations referencing, 1:703
on special purpose entities, 2:52
International Association of Deposit Insurers, 2:220
International Association of Insurance Supervisors (IAIS), 2:220, 273
International Bank for Reconstruction and Development, 2:215
International Business Machines Corporation (IBM)
classification shifting at, 2:213
cost of equity, 4:88–89
dividend actions, 3:143
forecasting growth for, 4:244–246
forward P/E, 4:393
product differentiation, 3:287
Index

sustainable growth rate calculation, 4:238
three-stage DDM, 4:233
weighted cost of capital, 4:91–92
international considerations for market-based valuation, 4:449–450
with required return on equity, 4:89–90
for residual income model, 4:529–530
International Development Association, 2:215
International Energy Agency (IEA), 4:15n.
International Federation of Accountants, 4:18
International Financial Reporting Standards (IFRS), 2:258
on accounting for derivatives, 4:517
on asset classification, 2:245
available-for-sale investments, 4:517
book value of equity, 4:504–505, 505
business combinations, 2:35–37, 49–56, 4:578
classification shifting, 2:339
depreciation deductions, 6:105
employee compensation, 2:76, 103, 105, 106
equity investments, 2:224
fair value, 2:229, 4:559n.5, 561, 595
goodwill impairment, 2:47, 4:559
income statements, 4:108
intangible assets, 4:556
intercorporate investments, 2:9–10
interest and dividends, 4:293–294
interest classifications, 4:34
investment property, 6:98–99
investments in associates, 2:23, 27, 31, 34
investments in financial assets, 2:10–22
joint ventures, 2:223
LIFO inventory accounting, 4:525
multinational operations, 2:130
accounting for dirty-surplus items, 2:183
accounting for foreign currency transactions, 2:133, 135
preparation of foreign financial statements, 2:144, 172, 178
rules for translation of foreign currency financial statements, 2:153–154
translation methods for financial statements, 2:144, 149, 151–154, 163, 176
net asset value, 6:102
non-controlling interests, 2:43
nonfinancial assets, 4:422
operating cash flow, 4:432
post-employment benefits convergence with US GAAP, 2:77
disclosure of benefits, 2:92, 94, 97–99
financial statement reporting of benefits, 2:81–86
measuring pension obligations, 2:79–80
prevalence of, 4:530
R&D expenditures, 4:415, 528
residual income, 4:505
share-based compensation, 4:299, 560n.7
and US GAAP, 2:55–56; 4:449–450
and US SEC reconciliation requirement, 4:449
international Fisher effect, 1:568–570
International Glossary of Business Valuation Terms (IGBVT), 4:560n.9, 563
International Monetary Fund (IMF)
developing/advanced country classification, 1:622n.1
estimates of potential GDP, 1:630
labor projections, 1:644
International Organization of Securities Commissions (IOSCO), 1:707–708
as commodities regulator, 6:208
and financial stability, 2:220
regulation framework of, 1:710
regulation of commerce by, 1:713–714
international parity conditions, 1:557–572
covered interest rate parity, 1:558
Fisher effect and real interest rate parity, 1:567–570
forward rate parity, 1:560–564
predictors of future spot rates, 1:560–564
purchasing power parity, 1:564–567
relationships among conditions, 1:570–572
uncovered interest rate parity, 1:558–560
international private real estate investments, 6:56–57
international stocks, free cash flow valuation for, 4:320–321
International Swaps and Derivatives Association (ISDA), 5:270, 273; 6:208
International Valuation Standards (IVS), 4:595
International Valuation Standards Council (IVSC), 4:561, 595, 596, 6:56n.17
internet, regulation of commerce and, 1:715
Internet Explorer, 3:213
Internet of Things, 1:243
interpolated spread. see l-spread
inter-temporal rate of substitution, 6:384–388
intervention, in exchange rates, 1:593–595
In the Matter of McKenzie Walker Investment Management, Inc. and Richard McKenzie, Jr., 1:229–231
in the money expiration, probability of, 5:408
intrafirm pressure, 1:37, 42
intra-industry rivalry, 4:12
intrinsic value (exercise value) defined, 4:561–562
discount rate, 4:57
of equities, 4:46–8
estimates of, 4:55–57
and internal rate of return, 4:57–58
and multiples of FFO and AFFO, 6:109
and net asset value per share, 6:98
for options, 5:379, 460
from residual income model, 4:497–500, 505
inventory(ies)
average cost of, 2:152
in financial statements, 2:152
projecting future, 4:132
sale of, 2:32–34
Theorie of Storage and, 6:216
inventory accounting and comparability, 4:390, 419
and fair value, 4:525
inventory turnover, 4:132
inverse price ratios, 4:391–392
invested capital, 4:133n.4
market value of, 4:444, 580
return on and balance sheet modeling, 4:133
company value from, 1:301–303
defined, 4:444, 495n.5
and WACC, 1:309–311
total, 4:444
investing, portfolio perspective on, 6:250
investing activities
cash flow from, 4:293–294
in forecasts of growth rates, 6:110
investment actions. see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V]
fair dealing in, 1:83–84
firm policies on, 1:77
impact of, 1:12–13
investment alternatives, for capital projects, 3:57
investment amounts, in venture capital method of valuation, 6:172–176
assumptions for, 6:177
examples, 6:173–174, 176
with multiple rounds of financing, 6:174–175
investment analysis
due diligence in, 1:33
independent, 1:69
limitations of, 1:139–140
Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V], 1:126–148
Communication with Clients and Prospective Clients [Standard V(B)], 1:137–146
application of the standard, 1:141–146
and changes in investment objectives, 1:233–234
compliance procedures, 1:140–141
eleventh edition revision, 1:8
guidance, 1:138–140
text of, 1:18
relating to, 137–138
Diligence and Reasonable Basis [Standard V(A)], 1:126–137
application of the standard, 1:130–137
in case studies, 1:211, 227
compliance procedures, 1:130
guidance, 1:126–129
text of, 1:18, 126
Record Retention [Standard V(C)], 1:146–148
application of the standard, 1:148
compliance procedures, 1:147
guidance, 1:146–147
text of, 1:18, 146

Cumulative_Ind_L1 49

June 14, 2018 9:39 PM
investment banking, 1:32–33
investment capital, for private equity investments, 6:157
Investment Company Act (1940), 1:702n.2, 3:236
investment costs in excess of book value, 2:27–28
investment decision criteria for capital budgeting, 3:10–27
average accounting rate of return, 3:15–16
discounted payback period, 3:14–15
internal rate of return, 3:11–12, 18–25
net present value, 3:10–11, 17–22
payback period, 3:13–14
popularity and use of capital budgeting methods, 3:25–27
profitability index, 3:16–17
investment decisions about commercial real estate, 6:454–455
exchange rate movements and, 6:255
independence of, 6:513–514
market-based factors in, 4:460–461
investment horizon, 6:623
investment management, 6:410. see also scenario analysis
investment industry, ethics in, 1:11–15
investment objectives changes in, 1:233–234
for covered call strategies, 5:459–464
establishing, 1:77
in IPFs, 1:93, 148
necessity of setting, 5:483–484
in portfolio management, 6:257–261
for protective put strategies, 5:464–468
return objective, 6:259–261
risk objective, 6:257–259
investment opportunities, dividend policy and, 3:148
investment personnel. see personnel investment policy statements (IPSs) and asset allocation, 6:254
in compliance procedures, 1:93
for portfolios and contingency reserve, 6:254–255
creating, 6:251, 253–254
defining, 6:248
developing, 1:91
investor constraints in, 6:261–264
investor objectives in, 6:257–261
requirements and limitations of, 1:92–96
retention of objectives/ recommendations in, 1:148
reviews of, 1:96
trades not aligned with, 1:92–93
updating, 1:92, 95
investment practice, impact of misrepresentation on, 1:44
investment process changes to, 1:142–144
informing clients of, 1:138–139
investment products, applicable laws for, 1:23–25
investment professionals, ethical responsibilities of, 6:265
investment properties, 6:98–99
Investment Property Databank (IPD), 6:61, 59
investment rate, neoclassical model and, 1:671
investment returns life and health insurance companies, 2:278–279
property and casualty insurance companies, 2:270–271
investments. see also intercorporate investments; private real estate investments available-for-sale, 2:12–14, 16–17, 4:517
corporate, 2:9
defensive, 6:441
in developing vs. developed countries, 1:623
evaluation of soundness of, 2:247
failed, 1:135
held for trading, 2:11
held-to-maturity, 2:10–11, 14–16
non-cyclical, 6:441
passive, 2:10
restricting, 1:36
venture capital investments, 6:167
Investments–Debt and Equity Securities (ASC 323), 2:10
Investments in Associates and Joint Ventures (IAS 28), 2:9, 10, 23
investment strategy(ies)
comparing, 6:505
for equities, 6:48–451, 499–506
fixed-income, 6:506–512
forecast time horizon and, 4:163
in portfolio management, 6:253–254
rebalancing in, 6:511–512
with US Treasury bonds, 6:508–510
investment system, disclosure of, 1:141, 143
investment value defined, 4:561
and fair market value, 4:8
market vs., 6:23, 24
investment vehicle fund setup costs, 6:157
investor constraints, 6:261–264
in investment policy statements, 1:93
legal and regulatory factors, 6:263
liquidity, 6:262
in portfolio management, 6:251
tax concerns, 6:263
time horizon, 6:262–263
unique circumstances, 6:263–264
investor questionnaires, for robo-advisory services, 1:251
investors ability to take risk, 6:257–259, 262–263
in commodity markets, 6:207
ex ante measurement of skill for, 6:512–513
exit routes of, 6:149–151
expectations of, 6:417, 423
importance of economic growth to, 1:620
importance of potential GDP to, 1:628–633
individual, 1:243, 244, 6:249, 261
institutional, 5:452–453, 6:103, 249
liquidity requirements of, 6:262
marginal, 3:138–139
objectives of, 6:251, 257–261
qualified, 6:153, 156
real estate equity and debt, 6:7, 8
re-engineering of companies by, 6:141
regulations for protection of,
1:717–718
REIT, 6:84
return desire of, 6:259–260
return requirements of, 6:259–261
short-term, 4:558
venture capital, 4:559
willingness to take risk, 6:257–259
divertor sentiment, asset values and, 6:383
inward-oriented development strategies, 6:660–661
IOSCO, see International Organization of Securities Commissions
iPad, 4:153–154
IPD. see Investment Property Databank
IPOs. see initial public offerings
IPRD Practice Aid. see Assets Acquired
in a Business Combination to Be Used in Research and Development Activities
IPSs. see investment policy statements
Iraq, 6:198
Ireland
active return and weights for equities, 6:500, 503, 504
average hours worked, 1:646
commercial property values, 6:455, 456
default-free government bonds, 6:425
economic growth, 1:653–656
exports and foreign direct investment in, 1:681
historical equity risk premium, 4:61, 63
ICT capital and investment in GDP, 1:647, 648
labor and total factor productivity, 1:651
labor force participation rate, 1:643
natural resources, 1:640
net migration, 1:644
OECD Principles, 3:256n.18
population growth, 1:642
R&D expenditures, 1:650
real GDP per capita, 1:621, 622, 677
regulation and government subsidies, 1:722
sovereign credit risk, 6:435
steady state of growth, 1:661–662
IRIS. see NAIC Insurance Regulatory Information System

L

Index
level movement, yield curve, 5:47
level of service, disclosure of, 1:86
leverage
and buyouts, 6:141–142, 146–148
in capital structure decisions,
3:96–98
and cost of capital, 3:108
and dividend vs. share purchase
decision, 3:170–173
and FCFE/FCFF, 4:319
financial, 4:403n.25, 410; 6:141
homemade, 3:135n.9
in international setting, 3:111–115
financial markets and banking sector,
3:113–115
institutional and legal environment,
3:112–114
macroeconomic environment, 3:114,
115
off-balance sheet, 2:403–406
and private real estate equity
investments, 6:16–17
and publicly traded real estate
securities, 6:82, 89, 91
and ROE, 4:243
leveraged buyouts (LBos)
and credit default swaps, 5:292–293
defined, 6:136
equity valuation for, 4:9
LBO model, 6:146–148
as private equity class, 6:137
share repurchases in, 3:297
valuation issues, 6:146
leveraged collateralized loan obligations
(LL CLOs), 5:248
leveraged IRR, 6:63
leveraged recapitalization, 3:297
leverage index (LEV), 2:307
leverage ratios, 2:405; 4:133; 6:354
L&H insurance companies. see life and
health insurance companies
liability(-ies)
in acquisition method, 2:38, 39
of banks, 2:214–215, 236
of Citigroup, 2:256–257
contingent, 2:38, 55
current exchange rate for, 2:145–147
disclosure of net pension, 2:97
with equity REITs, 6:86
estimation of, for insurance companies,
2:267
financial, 2:39
investors', 6:258
limited, 3:229
monetary, 2:145–147
net liability balance sheet exposure,
2:148
nonmonetary, 2:145
off-balance sheet, 4:419
pseudo, 6:258
liability insurance, 2:265
liability risk, 3:262
liberty, 3:219
Libor, see London Interbank Offered
Rate
Libor–OIS spread, 5:32–33
Libor/swap curve, 5:29
Libya, 6:198, 216
licensing, revenue from, 2:325–326
life and health (L&H) insurance
companies, 2:273–280; 6:261
capitalization, 2:280
earnings characteristics, 2:276–277
as financial institutions, 2:217
investment returns, 2:278–279
liquidity, 2:279–280
products and distributions, 2:273–276
property and casualty insurance
companies vs., 2:264
life cycle
commodity, 6:196–203
coffee, 6:202–203
energy, 6:197–199
grains, 6:201–202
industrial/precious metals, 6:199–200
livestock, 6:200–201
softs, 6:202–203
company's stage in, 4:557
industry, 3:287–288
life insurance, 2:273; 6:360
LIFO valuation method. see last-in, first-
out valuation method
light crude oil, 6:192
limited liability, 3:229
limited partnerships (LPs), 6:152–156
limits, on private placements, 1:159
Lin, S., 4:449n.57
Lindt
Assessing
solidity, 4:449n.57
Lindt, 4:151–153
linear association of variables,
1:265–266
linear regression
defined, 1:286
multiple, 1:329, 484
with one independent variable,
1:286–289, 305–308
see also multiple linear regression model
analysis of variance, 1:305–308
assumptions in, 1:289–291, 334–339
coefficient of determination, 1:295–297
hypothesis testing with, 1:297–305
bias in inflation forecasts, 2:97
with equity REITs, 6:86
inflation and Consumer Price Index,
1:157
Liquidity Coverage Ratio (LCR), 2:232,
259
liquidity gap, 6:354
liquidity position, in bank analysis,
2:232–236, 259–260
liquidity preference theory, 5:34
liquidity premiums, 5:34
liquidity requirements, investors, 6:262
liquidity risk, 6:262, 382
lira, Turkish, 2:155–157
litigation, 3:296; 4:560, 561
Littman, Robert, 5:47
Livent, Inc., 4:21–22
livestock, 6:194–195
average annual sector roll return,
6:224, 225
commodity life cycle, 6:200–201
LL CLOs, see leveraged collateralized
loan obligations
LNG. see liquefied natural gas
loans, 2:12–14
allowance and provision for losses on,
2:249–252
asset quality of, 2:224
collateralized loan obligations, 6:142
commercial real estate, 2:221
corporate consumer, 2:251–252
corporate and loan losses, 2:251–252
risk weighting of, 2:221
evaluation of, 2:245, 247
impairment allowances for, 2:229
interest-only, 6:62
net loan charge-offs, 2:249–250
non-accrual, 2:251
non-performing, 2:250
on real estate, 6:62
loan-to-value ratio (LTV), 6:16–17, 62
lending, 1:720
local communities, 3:202, 203, 205
local currency, 2:131
local expectations theory, 5:33–34
local public goods, regulation of, 1:706
local requirements, for record retention,
1:147
location, of real estate, 6:9–10, 19
locational obsolescence, 6:47–48
Lockheed Martin, 3:205
lockout period, 5:123–124, 169
logit models, 1:377
log-linear trend models, for time-series analysis, 1:440–446
log-log regression model, 1:330
lognormal distribution, in BS model, 3:740
London, England, 1:542, 543

M
McAfee, 2:131
McDonald’s Corp, 3:143; 4:221; 6:216
McGrady, C., 6:159n.13

Index
Index

- Macroeconomic factor models, 6:286–289
- defined, 6:285
- estimating returns from factor sensitivities with, 6:288–289
- fundamental factor models vs., 6:290–292, 294
- portfolio construction with, 6:301–302
- macroeconomic factors, 6:293, 394–395
- macroeconomic model for equity risk premium, 4:69–71
- for required return on equity, 4:84–85
- macroeconomic variables, in currency crises, 1:196
- MACRS. see modified accelerated cost recovery system
- Macy’s, Inc., 4:221
- Madoff, Bernie, 2:350
- Madrid Stock Exchange General Index, 1:682
- Maine, ESG risk exposures, 3:260
- maintenance capital expenditures, 4:133
- make-whole calls, 5:123
- Malaysia, 1:594; 2:219; 3:113
- Malthus, Thomas, 1:659
- Malthusian model of growth, 1:659
- MA(1) model, see moving average model of order 1
- MA(q) model, see qth order moving average model
- management (managers), 4:557, 567
- access to, 3:254
- active, 6:294, 297
- agency relationships of, 3:206
- asset, 6:16
- in bank analysis, 2:228, 252–253
- compensation reviews for, 3:254
- conflicts with shareholders, 3:231–233
- digital wealth, 1:16
- external, 1:39–40
- fund relationships with, 1:32, 42
- hedge fund, 6:357–358
- mind-set about M&As, 3:291–293
- personal incentives for M&As, 3:285
- of pooled investment vehicles, 2:216
- portfolio, 3:214–275; 6:265, 363
- of private equity funds, 6:142–143
- property, 6:8, 10, 12, 16
- selection of, 1:34, 41–42, 136
- submanagers, 1:96, 132–133
- travel expenses from, 1:39–40
- management buyouts (MBOs), 6:137, 146, 150
- Management Commentary (IFRS Practice Statement), 2:355
- Management Discussion and Analysis of Financial Condition and Results of Operations, 3:261
- management equity program (MEP), 6:148
- management fees, 6:153, 157
- managerial flexibility, 3:170
- managerialism theories, 3:285
- mandates following, 1:95
- investment, 6:261
- managing to, 1:93
- notification of change in, 1:142
- Mannesmann AG, 3:280
- margin discount, 5:230–231, 234
- gross, 4:151–453; 4:118–119
- pre-tax operating, 1:521–522, 524, 525
- profit, 2:343
- quoted, 5:227
- marginal investor, 3:138–139
- marginal productivity, diminishing, 1:634–635
- marginal product of capital, 1:634
- marginal utility, 6:387–388
- marginal VaR (MVaR), 6:337
- Markel Corp., 2:269, 270
- marketability
- lack of marketability discounts, 4:30, 591–592
- liquidity vs., 4:84
- of private equity investments, 6:140
- and required return for private companies, 4:86–87
- market approach to private company valuation, 4:562, 579–586
- guideline public company method, 4:580–583
- guideline transactions method, 4:584–586
- prior transactions method, 4:586
- market-based accounting, forward value and, 5:317
- market-based bankruptcy prediction models, 2:332
- market-based valuation, 4:377–489
- about, 4:378–379
- enterprise value multiples, 4:440–448
- alternative denominators in, 4:446–447
- enterprise value to EBITDA, 4:440–446
- enterprise value to sales, 4:447
- price multiples vs., 4:447–448
- harmonic mean, 4:457–459
- international considerations, 4:449–450
- issues with, 4:457–463
- method based on forecasted fundamentals, 4:381–382
- method of comparables, 4:379–381
- multiple indicators in, 4:459–463
- price to book value, 4:414–424
- price to cash flow, 4:431–436
- price to dividends and dividend yield, 4:436–439
- price to earnings ratio, 4:382–414
- price to sales, 4:425–431
- solutions to problems, 4:481–489
- market bubbles, 4:426; 6:253, 159
- market capitalization, 4:406
- market conversion premium per share, 5:171–172
- market conversion premium ratio, 5:171–172
- market conversion price, 5:171–172
- market data, in private equity valuation, 6:143–144
- market efficiency, 4:7
- market expectations for capital markets, 6:254
- and equity valuation, 4:10–11
- inferring, 4:29–41
- market fragmentation, 6:541
- market growth and market share approach, 4:111–112
- market making, 1:63
- Market Manipulation [Standard II(B)], 1:68–73
- application of the standard, 1:69–73
- guidance, 1:68–69
- information-based manipulation, 1:68
- transaction-based manipulation, 1:68
- text of, 1:6, 68
- market multiple, for P/E, 4:405–409
- market participation algorithms, 6:534
- market rent analysis, for equity REITs, 6:90
- market risk, 6:317–375
- analysis of, 3:49–51
- defined, 6:318
- with derivatives strategies, 5:484–485
- managing constraints, 6:361–366
- position limits, 6:363
- risk budgeting, 6:362–363
- risk measures and capital allocation, 6:364–365
- scenario limits, 6:363–364
- stop-loss limits, 6:364
- measuring, 6:319–361
- risk measure applications, 6:352–361
- scenario risk measures, 6:343–347
- sensitivity risk measures, 6:339–343
- VaR, 6:319–338
- practice problems, 6:369–373
- for private equity investments, 6:157
- sensitivity to, 2:236–238, 260–263
- solutions to problems, 6:374–375
markets
algorithmic monitoring of, 6:543–544
algorithmic trading/HFT and,
6:545–547
arbitrageurs in, 5:378
beer, 4:137–144
bond, 5:25–26, 291–292
capital (see also Integrity of Capital Markets [Standard of Professional Conduct II])
and benefit of ethics to society, 1:12
perfect, 3:95, 135, 147
sustainability of, 1:12–13
commodity futures, 6:190, 205–225
futures returns, 6:213–225
country equity, 6:475
covered calls for improving, 5:461
developed, 6:435
in developing vs. developed countries,
1:623–624
efficient, 6:173n.22
electricity, 5:6
efficient, 5:6
in developing vs. developed countries,
1:23–25
economic growth and price stability,
1:582
international Fisher effect, 1:569
private equity valuation, 6:140
sovereign credit risk, 6:433–434
for equity REITs, 6:82–84
fast, 5:484
financial, 1:623–624, 717–718
foreign exchange, 1:540–556
arbitrage constraints on spot exchange rate quotes, 1:544–548
conventions in, 1:540–543
forward markets, 1:548–556
forward, 1:548–556
calculation of forward exchange rates, 1:549–551
on commodities, 6:190
and covered interest rate parity, 1:550
forward exchange rate quotes, 1:551–554
mark-to-market values of forward contracts, 1:552–556
government bond, 5:25
imperfections in, 3:286
implied volatility in options trading across, 5:432
implied volatility in options trading within, 5:432
industrial, 1:593–595
leverage in, 3:113–115
perfect capital, 3:95, 135, 147
power from M&As, 3:283–284
regulation of, 1:717–718
secondary, 6:149–151
securities
algorithmic trading and, 6:545–547
regulation of, 1:711–713, 717–718
segmented, 4:72, 5:35
share repurchases in, 3:162
slow, 5:484
speed of, 5:484
spot, 6:190
swap
CDS, 5:270, 276–277
liquidity of, 5:25
market share, 4:111–112
Markets in Financial Instruments Directive (MiFID), 6:208
market sustainability, ethics and, 1:12–13
market timing, 1:363–364, 6:256
market timing risk, 4:85, 6:301, 302
market-to-book ratio, 1:374n.63
market value
in analysis of long-term equity investments, 2:399–401
of commercial real estate, 6:23–25
defined, 4:561
simulations with constraints on, 1:528
market value added (MVA), 4:497
market value of common equity (MVCE; MV[Equity]), 4:90–91, 287
market value of debt (MVD; MV[Debt]), 4:90–91, 287
market value of invested capital (MVIC), 4:444, 580
Markit, 5:274, 275
Markowitz, Harry, 6:250, 278, 471
mark-to-market accounting, 6:353n.19.
see also fair value accounting mark-to-market value, of forward contracts, 1:552–556
Marsh, Paul, 4:89
Marshall, Alfred, 4:492
M&As. see mergers and acquisitions
Massachusetts, ES&G risk exposures, 3:260
Massachusetts trust, 6:83
Masters, Blythe, 5:276n.13
material information, 1:57
materiality, determining, 1:64, 67
material nonpublic information adopting compliance procedures for, 1:60
analyst recommendations as, 1:65–66
Material Nonpublic Information [Standard II(A)], 1:56–67
application of the standard, 1:63–67
compliance procedures, 1:60–63
achieving public dissemination, 1:60
adopting, 1:60
adopting disclosure procedures, 1:60–61
appropriate interdepartmental communications, 1:61
communication to employees, 1:63
firewall elements, 1:61
issuing press releases, 1:61
personal trading limitations, 1:62
physical separation of departments, 1:61
preventing personnel overlap, 1:62
proprietary trading procedures, 1:63
record maintenance, 1:62
reporting systems, 1:62
guidance, 1:56–60
industry experts, 1:59–60
investment research reports, 1:60
material information defined, 1:57
mosaic theory, 1:58–59
nonpublic information defined, 1:58
social media, 1:59
text of, 1:16, 56
Mathonnet, Pierre-Yves, 6:158n.10
matrix price estimates, 4:441n.55
mature growth phase, 4:226, 413–414
mature growth rate, 4:226
maturity. see also yield to maturity of forward exchange rates, 1:551n.8
and key rate durations, 5:157
and preferred habitat theory, 5:35–36
maturity mismatch, contractual, 2:233–234
maturity structure, yield curve volatilities, 5:50–51
Maximum Contaminant Level, 3:261–262
maximum drawdown, 6:357–358
maximum profit, for bull spreads, 5:475–476
for bear spreads, 5:474
for covered calls, 4:90–91, 287
for protective puts, 5:467
for spreads, 5:480
maximum loss
for bear spreads, 5:475
for bull spreads, 5:474
for collars, 5:471
for covered calls, 5:462, 463
for protective puts, 5:466, 467
for spreads, 5:480
maximum profit, for collar, 5:471
MBOs. see management buyouts
MBSs. see mortgage-backed securities
MD&A. see Management Discussion and Analysis
mean
arithmetic, 4:60, 63–64, 458–459
in autoregressive models, 1:437
of covariance-stationary series, 1:448
geometric, 4:60, 63–64
harmonic, 4:457–459
mean regression sum of squares (MSR), 1:341–342
mean reversion
in algorithmic and high-frequency trading, 6:536
in autoregressive models, 1:452–453
in earnings, 2:318–319
of interest rates, 5:39–40
in Monte Carlo method of valuation, 5:100
mean squared error (MSE), 1:341–342, 356
“The Measurement and Application of Market Participant Acquisition
Premiums” (Appraisal Foundation), 4:581n.34
measurement error, Fisher effect with, 1:374–376
Medco Containment Services, 3:281
medical device manufacturing, 4:168
meetings, of non-employee directors, 3:252
mega buyouts, 6:141–142, 151
MELA Sciences, 3:133
modified Goldman model, 6:140n.1
Modified Jones Model, 2:314
Modigliani, Franco, 3:94; 6:141n.2
Modigliani and Miller theory
market value and capital structure in,
3:111
and optimal capital structure, 3:106
perfect capital market assumptions for,
3:135, 147
and private equity returns, 6:141–142
Proposition I
with taxes, 3:98–101
without taxes, 3:94–96
Proposition II
with taxes, 3:99–103
without taxes, 3:98–99
and regulatory impact on funding
costs, 1:723
Molodovsky, Nicholas, 4:388n.15
Molodovsky effect, 4:388
Monol-Coors Brewing Co., 4:138, 391
momentum indicators, 4:451–456
defined, 4:379
relative strength indicators, 4:453–456
scaled earnings surprise, 4:451
and unexpected earnings, 4:451–453
momentum stocks, 6:284
Mondelez International, 4:151
monetary approach to currency
exchange rates, 1:587–588
monetary assets, 2:145–147
Monetary Authority of Singapore, 2:218;
2:255–256
monetary liabilities, 2:145–147
monetary/nonmonetary method
analytical issues, 2:163
balance sheet exposures with,
2:163–166
and currency exchange rate movement,
2:172
and current rate method, 2:176–177
translating assets and liabilities with,
2:146–147
translating financial statements with,
2:148
monetary policy, 1:585–592
example, 1:588–590
historical relationship, 1:588
monetary approach with flexible
prices, 1:587–588
Mundell–Fleming model, 1:585–587
portfolio balance approach, 1:590–591
monetizing gains and losses, 5:285–286
money
at-the-money options, 3:244
in the money expiration, 5:408
out-of-the-money options, 3:244
post- and pre-money valuation,
6:148–149, 166–167
time value of, 5:25, 26
money market mutual funds, regulation
of, 1:720–721
moneyness, 5:486
money supply and inflation
coefficient of determination, 1:296–297
correlation, 1:283
covariance and standard deviation,
1:269–270
fitted regression line, 1:288
linear regression, 1:287–289
scatter plot, 1:264–265
standard error of estimate, 1:294–295
money trusts, 2:216
monitoring
algorithmic, 6:543–544
in capital budgeting process, 3:7
portfolio, 6:255
monitoring costs, 3:104
monopolies, 3:213
monotonically increasing sequences,
5:34n.8
Monte Carlo arbitrage-free valuation
method, 5:100–101
Monte Carlo simulations
and extreme events, 6:335
market risk evaluation with, 2:260–261
for private equity investments,
6:139–140
for risk analysis of capital projects,
3:45–48
for VaR estimation, 6:330–333
month-of-the-year effects on stock
returns, 1:345–346
Moody’s Inquirers Service
business cycle and credit spreads,
6:431
categories of credit ratings, 5:212;
6:427n.27
corporate bond yield, 4:408
debt ratings, 3:109
financial ratios and credit ratings,
6:433
Moody’s KMV Corporation, 5:218
Moody’s REAL index, 6:60
moral compass, 3:218
moral hazard, 1:706
more strict (MS) countries, 1:24–25
more strict law, 1:22
Morgan Stanley Capital International
(MSCI), 4:399. see also indexes
beginning MSCI
Morningstar, 4:73, 90
mortgage-backed securities (MBSs)
collateralized, 1:724
commercial, 5:248; 6:80
defined, 6:80
and quantitative easing, 5:36
residential, 5:248; 6:80
mortgage banks, 2:216
mortgage lending value, 6:24
mortgage real estate investment trusts,
6:82
mortgages, 6:6
mosaic theory
applying, 1:65, 66
and material nonpublic information,
1:58–59
moving average
n-period, 1:470–472
12-month, 1:470n.32
moving average model of order 1
moving-average models of time-series
analysis, 1:469–474
autoregressive, 1:480–481
autoregressive models vs., 1:469,
472–474
forecasting time series with, 1:472–474
smoothing past values with, 1:470–472
MPT. see modern portfolio theory
MSCI. see Morgan Stanley Capital
International
MSCI All Country World Index (ACWI)
as benchmark for actively managed
portfolios, 6:499–505
Sharpe ratio, 6:478
as value added benchmark, 6:472
MSCI All-Country World Sector
Indexes, 3:138
MSCI EAFE Index, 6:475, 478, 499
MSCI Emerging Markets Index, 6:499
MSCI High Dividend Yield Index, 3:137
MSCI Japan Small Cap Index, 1:345–346
MSCI World Index, 3:183; 4:72
M-score, 2:307–309
MS countries, see more strict countries
MSE. see mean squared error
MSR. see mean regression sum of squares
multicategory classification, in data
analytics, 1:379
multicollinearity, 1:359–362
consequences of, 1:360
correcting for, 1:362–363
with cross sectional regressions, 4:398
detecting, 1:360–362
multifactor models for required return
on equity, 4:79–85
and arithmetic mean, 4:64
Fama–French model, 4:79–83
macroeconomic, 4:84–85
Pastor–Stambaugh model, 4:83–84
statistical, 4:84
multifactor models of portfolios,
6:277–315
applications, 6:293–303
portfolio construction, 6:300–302
return attribution, 6:293–296
risk attribution, 6:296–300
strategic portfolio decision-making,
6:303
and arbitrage pricing theory,
6:279–285
assumptions, 6:279–280
calculating expected return to
portfolio, 6:280–281
Carhart four-factor model, 6:283–285
parameters in one-factor AP1 model,
6:281–282
portfolio returns for no arbitrage
condition, 6:282–284
and definition of factor, 6:277
fundamental factor models, 6:289–293
defined, 6:285
factors, 6:292–293
macroeconomic factor model vs.,
6:290–292
return attribution, 6:293–294
risk attribution, 6:298–300
structure, 6:289–293
macroeconomic factor models,
6:286–289
defined, 6:285
estimating returns from factor
sensitivities, 6:288–289
fundamental factor model vs.,
6:290–292
Index 59

portfolio construction, 6:301–302
structure, 6:286–289
and modern portfolio theory, 6:278–279
practice problems, 6:306–311
single-factor models vs., 6:277–278
solutions to problems, 6:312–315
statistical factor models, 6:285
structure, 6:286–293
fundamental factor model, 6:289–293
macroeconomic factor model,
6:286–289
types of, 6:285–286
multifactor term structure models, 5:39
multi-family properties, direct investment in, 6:11, 21
multi-family real estate investment trusts, 6:93, 95
multi-legged trade, 6:537
multinational corporations (MNCs)
Tobin’s q of, 1:335–337, 340
valuation of, 1:335–337
multinational operations, 2:129–212
and antitrust regulations, 3:300
disclosures, 2:186–190
foreign exchange risk, 2:189–190
sales growth, 2:186–189
effective tax rate, 2:183–186
foreign currency financial statements,
2:143–183
analytical issues, 2:160–172
balance sheet exposures under temporal method, 2:163–166
companies with multiple translation methods for, 2:176–177
disclosure of translation methods, 2:177–183
translation in hyperinflationary economy, 2:172–176
translation methods, 2:148–160
translation of concepts, 2:144–148
foreign currency transactions,
2:131–143
analytical issues, 2:135–138
disclosures of gains and losses, 2:138–143
and foreign exchange risk, 2:132–135
with intervening balance sheet dates, 2:133–135
with settlement before balance sheet date, 2:132–133
practice problems, 2:194–205
solutions to problems, 2:206–212
and transactions that cross national borders, 2:130
multiperiod binomial model, 5:377, 401
 multiperiod forecasts, autoregressive models for, 1:453–456
multiple coefficient of determination (multiple $R^2$), 1:332
multiple-element contracts, 2:324–326
multiple IRR problem, for capital projects, 3:22–24
multiple linear regression, 1:329, 484
multiple linear regression model, 1:328–363
adjusted $R^2$, 1:343–344
assumptions of, 1:334–339
for bid–ask spread, 1:329–333
defined, 1:329
explaining returns with, 1:337–339
explaining valuations of multinational corporations with, 1:335–337
hypothesis testing with, 1:341–343
predicting dependent variable, 1:339–341
predicting multinational corporation’s Tobin’s q with, 1:340
multiple peril policies, 2:266
multiple $R^2$, see multiple coefficient of determination
multiples, fund performance and, 6:159–160
multistage dividend discount models, 4:225–240
H-model, 4:230–232
for non-dividend-paying companies, 4:229–230
spreadsheet modeling, 4:237–238
three-stage model, 4:232–237
with declining growth rates, 4:233–236
with distinct stages, 4:232–233
two-stage dividend discount model, 4:226–229
and P/E model, 4:228–229
capital valuation with, 4:226–228
valuing stock with, 4:226–228
multistage residual income model, 4:507–512
multistage time horizons, 6:263
municipal bonds, tax-exempt, 5:124
munis. see tax-exempt municipal bonds
mutual banks, 2:216
mutual funds
money market, 1:720–721
open-end, 2:216
mutually exclusive projects, 3:10, 38–40
MV(Debt). see market value of debt
MV(Equity). see market value of common equity
MVA. see market value added
MVAr. see marginal VaR
MVCE. see market value of common equity
MVD. see market value of debt
MVIC. see market value of invested capital
N
NAFTA. see North American Free Trade Agreement
NAIC. see US National Association of Insurance Commissioners
NAIC Insurance Regulatory Information System (IRIS), 2:264n.31
naked call options, 5:459n.18
naked default credit swap, 5:287–288
naked puts. see cash-secured puts
names, fictitious, 1:174
Nardelli, Bob, 3:208
NAREIT. see National Association of Real Estate Investment Trusts
NASDAQ. see National Association of Securities Dealers Automated Quotations
NASDAQ Global Select Market (NASDAQ-GS), 4:56n.5
National Association of Certified Valuation Analysts, 4:56n.9
National Association of Real Estate Investment Trusts (NAREIT), 6:14
National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores), 2:218
National Bank of Belgium, 2:217
national borders, transactions that cross, 2:130
National Council of Real Estate Investment Fiduciaries (NCREIF), 6:59
National Futures Association (NFA), 6:208
National Income and Product Accounts (NIPA), 1:629
Nationally Recognized Statistical Rating Organizations, 3:109
National Oilwell Varco Inc., 4:14
natural breakpoint, retail property, 6:20
natural gas, 6:193
natural language processing (NLP), 1:249
natural logarithm, converting, 1:332
natural resources, economic growth and, 1:639–641
nature of employment, 1:108–109
Nautica Enterprises, 2:340–342
NAV. see net asset value
NAVPS. see net asset value per share
NCC. see net noncash charges
NCREIF. see National Council of Real Estate Investment Fiduciaries
NCREIF Property Index, 6:13, 14, 58
negative book value, for equity, 1:528
negative earnings, trailing P/E with, 4:391
negative growth, dividend with, 4:217
negative serial correlation, 1:356n.45, 357, 358n.48
neglected company effect, 1:398–399
negotiation, for share repurchases, 3:162–163, 169
neoclassical model of economic growth, 1:659–671
adjusting, for an open economy, 1:678–679
comparative statics and transitional growth, 1:668–670
endogenous growth theory vs., 1:673–674
extensions of, 1:670–671
implications of, 1:666–667
steady state rate of growth, 1:660–666
capital deepening, 1:661 in China, Japan, and Ireland, 1:661–662
as equilibrium, 1:662–665
impact of parameters on, 1:663–665
Nestlé S.A.
foreign subsidiaries of, 2:130
inflation and input costs, 4:151–153
long-term equity investment case study, 2:373–402

Cumulative_Ind_12 59  June 14, 2018 9:39 PM
Net asset balance sheet exposure, 2:148
net asset value (NAV) calculation of, 6:102
Capitol Shopping Center REIT Inc. case study, 6:120–121
of equity REITs, 6:88
observations on, 6:103
in private equity valuation, 6:158–159
net asset value approach, 6:98–103
and accounting for investment properties, 6:98–99
application of NAVPS, 6:101–103
calculation of NAVPS, 6:99–101
net asset value per share (NAVPS) calculations on, 6:98–101
application of NAVPS, 6:101–103
as benchmark, 6:98
calculation of, 6:99–101
and calculation of NAV, 6:102
Capitol Shopping Center REIT Inc case study, 6:120–121
premiums on, 6:103
for publicly traded real estate securities, 6:99–103
as relative valuation tool, 6:102–103
Netherlands active return and weights for equities, 6:500, 503, 504
Baseline Committee membership, 2:218
exports, 2:130
ex post equity risk premium, 6:445
GDP growth rate, 4:212
historical equity risk premium, 4:61, 63
natural resources, 1:640
OECD Principles, 3:256n.18
publicly traded real estate equities, 6:81
yield spread on government bonds, 6:424n.25
Netherlands Bank, 2:218
net income (NI) adjusting, 4:302–306
in capital budgeting, 3:56
and FCFF, 4:302–306
on foreign currency financial statements, 2:182–183
interest, 2:237, 258
mistakes in forecasting free cash flow with, 4:316–317
operating cash flow and, 2:314–318
and other comprehensive income, 2:304–305
two-stage model for free cash flows, 4:326–328
net interest income (NII), 2:237, 258
net interest margin, 2:254–257
net interest revenue, 2:254, 256–257
net interest spread, 2:254
net internal rate of return, 6:160
net leases for health care facilities, 6:93
for office properties, 6:19, 20
for shopping centers, 6:92
net liability balance sheet exposure, 2:148
net loan charge-offs, 2:249–250
net migration, economic growth and, 1:644–645
net noncash charges (NCC), 3:307
net operating income (NOI) and capital expenditures, 6:43
capitalization of, 6:399–100
defined, 6:28
and FFO/AFFO, 6:106
and functional obsolescence, 6:48
in income approach to real estate valuation, 6:27–33
level, 6:36
stabilized, 6:31–32
net operating profit less adjusted taxes (NOPLAT), 3:306–307; 4:133
net premiums earned, 2:269
net premiums written, 2:269
net present value (NPV), 3:10–11, 17–22
capital projects with real options, 3:53
defined, 6:10
NPV profile, 3:17–18
ranking conflicts between IRR and, 3:18–22
and stock prices, 3:26–27
net profit margin, 2:343
net profit margin spread, 2:384
net regulatory burden, 1:718–719
net rent, 6:92
Netscape, 3:213
Net Stable Funding Ratio (NSFR), 2:232–233, 259–260
network externalities, ICT capital and, 1:648–649
network neutrality, regulation and, 1:721
neural networks, 1:245, 386–387
neutral policy rate, 6:407, 409
new entrants in beer markets, 4:138, 139
in cognac industry, 4:171
and financial forecasting, 4:137–139
in industry structure, 4:12
Newey–West method of adjusting standard errors, 1:358–359
new firms, starting, 3:412
new issue DRPs, 3:128
New Jersey, ESG risk exposures, 3:260
new media, retention of information on, 1:147
Newmont Mining, 4:96, 101
new products and services, cost-benefit analysis for, 3:7
news, algorithmic trading on, 6:537–538
new space, REITs and, 6:94–95
New York, New York, 1:542, 543
New York Mercantile Exchange (NYMEX), 6:209
New York State, ESG risk exposures, 3:260
New York Stock Exchange (NYSE) executive compensation, 3:243
heteroskedasticity and CAPM for stocks on, 1:351
independence requirements, 3:250–251
and Regulation National Market System, 1:720
New York Times, 4:168
New Zealand active return and weights for equities, 6:500, 503–505
common law, 3:113
dividend imputation tax system, 3:151
historical equity risk premium, 4:61, 63
natural resources, 1:640
OECD Principles, 3:256n.18
real GDP per capita, 1:621, 676, 678
Royal & Sun Alliance Group, 3:143
New Zealand dollar, 1:500, 503–505
NFA. see National Futures Association
NP. see net profit
Nigeria claims against Shell Oil Company in, 2:352
energy markets, 6:198
natural resources, 1:639, 640
real GDP per capita, 1:622, 677, 678
toxic waste dumping in, 3:218
NII. see net interest income
Nijman, Theo E., 6:214
Niko, 3:211–212, 214, 215
Nikkei 225 Index, 3:126
NIPA. see National Income and Product Accounts
Nissim, Doron, 2:318
NLP. see natural language processing
no arbitrage portfolio returns for, 6:282–284
principle of, 5:76–77
no-arbitrage approach to pricing and valuation. see arbitrage-free valuation
no-arbitrage forwards, 5:311–321
carry arbitrage model without underlying cash flows, 5:311–318
cash flows for financed position in underlying, 5:312–313
cash flows for financed position in underlying combined with forward contract, 5:313–314
cash flows related to carrying underlying, 5:311–312
cash flows with forward market price too high, 5:314–315
cash flows with forward market price too low, 5:315–316
value of long forward position, 5:317–318
carry arbitrage model with underlying cash flows, 5:318–321
no-arbitrage single-period binomial model, 5:379–384
BSM vs., 5:406–407
for call options, 5:380–383
for put options, 5:383–384
no-arbitrage two-period binomial model, 5:387–391
for American-style options, 5:390–391
for European-style options, 5:387–390
noblesse oblige, 3:213
nodes of binomial interest rate trees, 5:85–87
in binomial option valuation model, 5:379
neural network, 1:386
no-fault divorce, for private equity funds, 6:156

Cumulative_Ind_12 60

June 14, 2018 9:39 PM
no-growth company, 4:220–221
no-growth value per share, 4:221
NOI. see net operating income
no IRR problem, for capital projects, 3:234–25
noise, in transaction-based real estate indexes, 6:61
Nokia Corporation
  clean surplus violations, 4:518, 519
  foreign exchange risk management, 2:143
  long-term forecasts for, 4:168
  statement of changes in stockholder equity, 4:519
nominal cash flows, inflation and, 3:37–38
nominal coupon-paying bonds, default-free, 6:402–425
  conventional government bonds, 6:410–413
  influences on short-term default-free interest rates, 6:409
  pricing formula, 6:402–403
  short-term nominal interest rates and business cycles, 6:404–409
  yield curves and business cycles, 6:413–425
nominal discount rate, 4:92
nominal GDP, 1:487; 4:212
nominal interest rates and Fisher effect, 1:567–568
  and inflation, 1:352–354
short-term, 6:403
nominal yield spread, 1:582
nominating committee, board of directors', 3:242–243
non-accrual loans, 2:251
noncallable fixed-rate perpetual preferred stock, 4:216–217
noncash charges and FCF, 4:290, 306–307
  and forecasting free cash flow, 4:295–301
noncash consideration, 4:584
non-cash rents, 6:100
noncompete agreements and clauses, 1:107; 6:143
noncontrolling business interests, 2:43–46
Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), 2:8
nonconventional cash flow, 3:9
non-convergence trap, 1:675
noncorrection of known errors, 1:48
non-cyclical equities
  business cycle and earnings for, 6:442–444
  equity premiums for, 6:450–451
non-cyclical investments, 6:441
non-discretionary accruals, 2:314
non-dividend-paying companies, DDM for, 4:229–230
non-dividend paying stock, valuing, 4:229–230
nonearning assets, 4:441
non-employee directors, 3:252, 253
nonfinancial assets, 4:422
nonfinancial measurements, enterprise value for, 4:446–447
  non-ICT capital, 1:639, 649
  nonlinearity (nonlinear relation) of functional form, 1:366–370
  of variables, 1:270–271
  nonmonetary assets, 2:145
  nonmonetary liabilities, 2:145
  nonoperating assets, 4:337, 563
  non-operating expenses
    modeling of, 4:126–131
    on pro forma income statements, 4:176–177
  nonoperating gains, 4:528–529
  nonoperating income, reclassifying components of, 2:99–101
  non-performing loans, 2:250
  nonpublic companies, beta for, 4:77–79
  nonpublic information acting on, 1:63, 66
  analyst recommendations as, 1:65–66
  controlling, 1:64
  defined, 1:58
  material (see Material Nonpublic Information [Standard II(A)])
  standards for priority of transactions with, 1:158
  non-recurring earnings, 2:310–312
  nonrecurring items, 4:386–388, 528–529
  non-renewable resources, 1:69
  non-residential properties, 6:11
  non-standard forward dates, points for, 1:552
  nonstationarity
    in historical equity risk premium estimates, 4:60
    of time series, 1:376
    unit root test of, 1:465–469
  non-stationary probability distributions, 1:529
  non-traded assets, 4:76–79
  NOPLAT. see net operating profit less adjusted taxes
  normal backwadation and Insurance Theory, 6:213–214
  and roll return, 6:220
  normal distribution
    BSM model and, 5:402, 405
    cumulative probabilities for, 1:735–736
    normality assumption, for linear regression model, 1:291n.25
    normalized earnings, 4:164, 563–564
    normalized earnings per share (normal EPS), 4:388–389
    normalized operating income, 4:129
    normalized P/E, 4:385
    normalized revenue, 4:164–169
  Nortel Inversora S.A., 2:21–22
  North America. see also specific countries
    analysis of revenue, 4:109, 110
    DCS products, 5:274
    corporate governance failures, 3:226
    Gordon growth model, 4:68
    grain production, 6:201
    publicly traded real estate equities, 6:81
    regulatory code overhaul, 3:246
North American Free Trade Agreement (NAFTA), 1:682
Norway
  active return and weights for equities, 6:500, 503, 504
  historical equity risk premium, 4:61, 63
  OECD Principles, 3:256n.18
  share repurchases, 3:161
  no securities laws (NS) countries, 1:24–25
  NoSQL database, 1:249
  notching, 2:213, 238
  notes
    credit-linked, 5:248
    floating-rate, 5:227–234
    US Treasury, 5:31–32
  Notes to Financial Statements
    disclosure of translation methods in, 2:178
    information about risk in, 2:346–347, 350–355
    of Royal Dutch Shell, 2:351–355
  notification
    changes to investment process, 1:142–144
    client bonus compensation, 1:116–117
    Code and Standards, 1:114
    of errors, 1:144
    fund mandate changes, 1:142
    of inability to timely file, 2:358
    known violations, 1:27
    outside compensation, 1:117
    of risks/limitations, 1:145–146
  notional amount
    for CDS, 5:270–271
    for currency options, 5:410
    in currency swaps, 5:450n.6
    for Libor spot market, 5:325
    for swaps, 5:346n.21, 350
    in valuation of interest rate options, 5:415
  notional value, in interest rate swaps, 5:449
Novartis, 3:143
Novo Nordisk, 4:109–114
  n-period moving average, 1:470–472
NPV. see net present value
  NPV profile, 3:17–18
  NS countries. see no securities laws countries
  NSFR. see Net Stable Funding Ratio
  NTT P/E. see next twelve month price-to-earnings ratio
null hypothesis, 1:282–283, 285n.14, 341
NYMEX. see New York Mercantile Exchange
NYSE. see New York Stock Exchange
O
  OAS. see option-adjusted spread objectives
  active managers, 6:294
  investment
    changes in, 1:233–234
    establishing, 1:77
    in IPSs, 1:93, 148
    return objective, 6:259–261
    risk objective, 6:257–259
    investors, 6:251, 257–261
Index

on-the-job consumption, 3:208
“on the run” bonds, 5:14
on-the-run series, 5:275
OPB, see other post-employment benefits
open economies, 1:678–686
China and India, 1:679–680
convergence, 1:682
Mundell–Fleming model, 1:585–587
Spain, 1:682–686
open-end mutual funds, 2:216
open market, share repurchases in, 3:162
open-market DRPs, 3:128
open market rent, 6:37
operating cash flow (OCF) in equity valuation, 4:19
free, 6:433
of Nestlé, 2:298–299
net income and, 2:314–318
overstatement of, 2:300
and price-to-cash flow, 4:432
quality of, 2:333–334
reclassification of, 2:298
operating choices, reporting quality and, 2:294
operating costs, 4:114–126
operating expenses, in advanced DCF, 6:42–43
operating income
net and capital expenditures, 6:43
capitalization of, 6:99–100
defined, 6:28
and FFO/ AFFO, 6:106
and functional obsolescence, 6:48
in income approach to real estate valuation, 6:27–33
level, 6:36
stabilized, 6:31–32
normalized, 4:129
overstatement/non-sustainability of, 2:299
reclassifying components of, 2:99–101
operating leases
off-balance sheet leverage from, 2:403–406
conclusions and recommendations, 2:406
data analysis, 2:404–406
data collection, 2:403
data processing, 2:404
follow-up, 2:406
purpose for analysis, 2:403
off-balance sheet liabilities, 4:419
off-balance sheet obligations, 2:226, 240–241, 343
offer price and arbitrage constraints on spot exchange rate quotes, 1:544–548
in foreign exchange market, 1:541
office industry cycle, 6:92
Office of the Comptroller of the Currency, 2:218
Office of the Superintendent of Financial Institutions, 2:218
office properties, 6:11, 19–20
office real estate investment trusts, 6:91, 92, 94, 95
offsetting forward positions, 1:553n.10, 554
off-the-run series, 5:275
Ohio, 3:295
Ohio Art Company, 3:214
oil prices, moving average for, 1:471–472
oil refining, 4:71–472, see also crude oil
OIS, see overnight indexed swaps
OIS rate, see overnight indexed swap rate
OLS, see ordinary least squares
omissions, 1:45
one-factor APT model, 6:281–282
one-factor term structure models, 5:39
OneMain Financial, 2:255–256
one-period binomial model, 5:379–386
for call options, 5:380–385
expectations approach in, 5:384–386
no-arbitrage approach in, 5:379–384
for put options, 5:383–384, 386
one price, law of
and arbitrage-free valuation, 5:77, 308, 377
and method of comparables, 4:380–381
and purchasing power parity, 1:564
one-sided durations, 5:155–156
one-tailed tests, 1:342n.22
one-time opportunities (private equity class), 6:137
12/20 long-short strategy, 6:501
Oniva.com, 3:203
online payment companies, 2:216
operations. see also multinational operations
adjusted funds from in Capitol Shopping Center REIT Inc. case study, 6:115
growth in, 6:104
P/ AFFO multiple, 6:104, 109–110
cash flow from operations, 4:204n.10
adjusting, 4:301–306, 314–315
FCFE from, 4:301–306
FCFF from, 4:293–295, 301–306
and free cash flow, 1:370–372, 4:285
and net income, 1:280–281
and price to cash flow, 4:432, 434
funds from in Capitol Shopping Center REIT Inc. case study, 6:115, 118
growth in, 6:105
in real estate valuation, 6:105–108
of life and health insurance companies, 2:273–276
price-to-adjusted funds from advantages and drawbacks, 6:109–110
in valuation of REIT stocks, 6:104
price-to-funds from advantages and drawbacks, 6:109–110
in valuation of REIT stocks, 6:104
of property and casualty insurance companies, 2:265–266
opinions about CFA Program or Institute, 1:166
auditor’s, 2:346–350
of credit rating agency, 1:33–34
facts in reports vs., 1:140
fairness, 4:10
group research, 1:132
integrity of, 1:35
providing, as facts, 1:141
opportunistic exploitation of value chain members, 3:213–214
opportunity costs of capital projects, 3:57
and capital rationing, 3:42
defined, 3:9; 4:205
of funds, 3:9
opportunity lists, 4:428
optimal capital structure, 3:106
optimal expected active return, 6:492–493
optimal portfolio, risk and return in, 6:482–487
option-adjusted spread (OAS), 2:272
about, 5:145–147
in history of bond analytics, 5:178
and interest rate volatility, 5:147–149
option combinations, strategies using, 1:525
option delta, 5:420–423
option-free bonds. see also straight bonds
default-free bonds, 5:128–129
effective convexity of, 5:159
key rate durations of, 5:156–157
valuation with binomial interest rate trees, 5:94–96
default-free bonds, 5:128–129
with spot rates, 5:79–80
Z-spread for, 5:146

Cumulative_Ind_12  62  June 14, 2018 9:39 PM
option gamma, 5:423–426
option pools, in venture capital method, 6:169
option premiums, exercise and time value in, 5:460
option pricing models, for capital projects, 3:53
options (options contracts). see also bonds with embedded options; specific types, e.g.: call options
consequences of exercising, 5:483
optimal exercise of, 5:131
and parametric method of VaR estimation, 6:327
sensitivity risk measures, 6:340–342
value of callable/putable bonds and straight bonds vs., 5:127–128
option spreads, 5:473–481
bear, 5:473, 475–476
bull, 5:473–479
calendar, 5:480–481, 492
refining, 5:476–479
risk with, 5:480
options prices
and structural models, 5:217–218
and volatility, 5:485–486
options trading, implied volatility in, 5:431–433
options valuation
binomial model, 5:378–401
about, 5:378–379
interest rate options, 5:399–401
multiperiod model, 5:401
one-period model, 5:379–386
two-period model, 5:386–398
Black model, 5:412–419
for European options on futures, 5:412–414
for interest rate options, 5:414–417
for swaps, 5:417–419
Black–Scholes–Merton model, 5:401–411
assumptions, 5:377, 402–404
binomial model vs., 5:406
for call options, 5:404–409
with carry benefits, 5:377, 408
for currency options, 5:410–411
history, 5:402
and normal distribution, 5:405
for put options, 5:404, 406–409
stock and bond components of, 5:405, 407–408
for stock options, 5:409–410
for stocks, 5:404
Greeks, 5:420–429
delta, 5:420–423
gamma, 5:423–426
rho, 5:428–429
theta, 5:426–427
vega, 5:427–428
implied volatility, 5:429–433
and BSM model, 5:429–430
in option trading, 5:431–433
variability in, 5:430
and volatility indexes, 5:430–431
no-arbitrage approach to valuation, 5:376–377
option theta, 5:426–427
Oracle Corporation, 3:141–142
orderly liquidation value, 4:8
ordinary least squares (OLS), 1:334n.10
for autoregressive models, 1:449
and model specification, 1:363
and serial correlation, 1:356
Oregon, ESG risk exposures, 3:260
organic growth, 3:283
Organisation for Economic Co-Operation and Development (OECD)
estimates of potential GDP, 1:630
labour projections, 1:644
Principles of Corporate Governance, 3:256–260
productivity studies, 1:625
organizational culture, 3:215, 220
Osaka Dojima Commodity Exchange, 6:207
OSHA, see Occupational Safety and Health Administration
OTC contracts. see over-the-counter contracts
OTC market. see over-the-counter market
other comprehensive income (OCI) accumulated, 4:521
as dirty surplus item, 4:505n.12
fair value through, 5:20–22
and net income, 2:304–305
and periodic pension cost, 82–83, 98
and residual income, 4:521–527
other post-employment benefits (OPB), 2:78, 79
outcomes (simulation)
quality of, 1:529
range of, 1:523
outliers
in correlation analysis, 1:271–273
and harmonic mean, 4:458
out-of-date information, 1:52–53
out-of-sample forecast errors, 1:456
out of sample testing, model specification and, 1:364
out-of-the-money options, 3:244
output, per capita, 1:635
output gap, 6:407
output-to-capital ratio, 1:661, 662, 665, 666
outright forward contracts, 1:548
outside compensation, 1:117
outside information, verifying, 1:47
outside organizations, referral arrangements with, 1:164
outside parties, referral arrangements and, 1:162–164
over-oriented development strategies, 1:680, 681
overall market multiple, for P/E, 4:405–409
overfitting, 1:245, 380n.70, 383
overfunding, 6:358
overhead costs, 3:56
overnight indexed swap (OIS) rate, 5:32–33, 327n.11
overnight indexed swaps (OIS), 5:235
overspending, on capital projects, 3:57
over the counter (OTC) contracts, 6:205
over-the-counter (OTC) market, 5:452
overweight (term), 6:474
ownership
of banks, 2:239
beneficial, 1:158, 159
of completed prior work, 1:111
employee stock ownership plans, 3:204
of firm’s records, 1:147, 148
of real estate, 6:6
stock, 1:151–153
ownership fraction, for venture capital, 6:167
P
Packard, David, 3:215
Pac-Man defense, 3:297
P/AFFO. see price-to-adjusted funds from operations
paid in capital (PIC), 6:160, 163
PaineWebber Short-Term US Government Income Fund, 1:233
painting the tape, 6:544
pairs trading, 4:25; 6:536, 537
pairwise correlations, in multifacility assessment, 1:360
Pakistan
equity REITs, 6:83
natural resources, 1:640
real GDP per capita, 1:621, 677
Pan Asia Index, 3:142–143
panel data, regression analysis of, 1:286n.15
parameters
stability of, 1:311
for statistical distributions, 1:522
parametric method of VaR estimation, 6:324–327
and extreme events, 6:335
historical simulation method vs., 6:329–330
par curve
benchmark, 5:81–82
in bootstrapping, 5:15
defined, 5:14
and swap curve, 5:25
in valuation of risky bonds, 5:219
parent orders, 6:535
parent’s presentation currency as functional currency method, 2:151–154
Pareto optimal, 1:705–706
pari passu (term), 5:269
parity. see interest rate parity;
purchasing power parity (PPP)
parity value, convertible bond, 5:170
Parmalat, 3:210, 233, 246; 5:216
par rates
defined, 5:128
and key rate durations, 5:157
from yield curve, 5:128
parsimonious models, 1:364
par swaps, 5:25
partial durations, 5:156. see also key rate duration
partial elasticity, of dependent variable, 1:367
partial equilibrium model, 2:160, 163
Packard, David, 3:215
partnerships
general vs. limited, 6:152–156
other forms of business vs., 3:229
umbrella partnership REITs, 6:84, 88
Pascal’s Triangle, 5:96–97
passing exams in consecutive years, 1:173
passing rent, 6:37
passive investments, in financial assets, 2:10
passive investment strategy, 6:253
passive management, 6:300
Pastor–Stambaugh model (PSM), 8:13–84
path-dependent cash flows, securities with, 5:100
path-dependent options, 5:378
pathwise valuation, 5:96–100
pay, CEO, 3:208–209, see also compensation
payback period, 13–15
payer swaptions, 96–97
pay-to-play scandals, 34
pay, CEO, 2:10
pay, equity, 3:208–209
payment method
advanced settle, 5:326, 327, 414
for M&As, 3:290–291
settled in arrears, 5:326, 327, 414
payments. see also balance of payments flows
balloon, 6:62
discounted lease, 2:404–405
online payment companies, 2:216
present value of CDS and stream of, 5:283
share-based, 4:10
structure of, for CDSs, 5:269
upfront, 5:271–272, 281, 283–284
payout amount, 5:273–274
payout policies, 3:155–161
constant dividend payout ratio policy, 3:157–158
defined, 3:126
global trends, 3:177–178
residual dividend policy, 3:159–161
stable dividend policy, 3:155–157
payout ratios
for credit default swaps, 5:273–274
dividend constant, 3:155, 157–158
defined, 3:129; 4:439
dividend safety, 3:179–183
and FFO/FFO, 6:115
global trends in, 3:177–178
equity REIT vs. REOC, 6:87
target, 3:156
Paypal, 2:216
pay-to-play scandals, 1:34
P/B. see price to book value
PBO. see projected benefit obligation
PCA. see principal components analysis
PCAOB. see Public Company Accounting Oversight Board
P/C. see price to cash flow
P&C insurance companies, see property and casualty insurance companies
PCP. see Professional Conduct Program
P/D. see price to dividends
P/E. see price to earnings ratio
pecking order theory, 3:105
peer-company multiples, P/E, 4:401–405
PEG ratio, 4:403
P/E median, 4:409
penalized regression, 1:383–384
Pennan, Stephen H., 2:318
Pennsylvania
ESG risk exposures, 3:260
restrictive takeover laws, 3:295
pension funds
market risk management, 6:358–359
private equity from, 6:155
risk budgeting, 6:363
pension obligations, 2:79–80
accumulated benefit, 2:79n.5
for automobile manufacturers, 2:93–94
for individual employees, 2:86–89
measurement of, 2:79–80
present value of defined benefit, 2:79–80
projected benefit, 2:79–80
vested benefit, 2:79n.5
pension plans
defined-benefit, 2:81–85
balance sheet presentation, 2:81–82
characteristics, 2:79
defined, 2:77–78; 6:249n.2
obligations, 2:79–80, 86–89
periodic pension cost, 2:82–85
return requirements and risk tolerance of, 6:261
risk measures of, 6:358
defined-contribution characteristics, 2:79
defined, 2:77
financial statement reporting for, 2:81
return requirements and risk tolerance of, 6:261
disclosure of net pension liabilities/assets, 2:97
obligation for individual employee, 2:86–89
People’s Bank of China, 2:218
Pepco Holdings, 4:439
per capita output, capital deepening and, 1:635
percentage leases, for retail properties, 6:20
perfect capital markets, 3:95, 135, 147
perfect collinearity, 1:33n.14, 359–360
performance
corporate and CEO pay, 3:208–209
and stakeholders, 3:202–206
profitability and profit growth, 3:204–206
role of stockholders, 3:203–204
stakeholder impact analysis, 3:203
of private equity funds, 6:159–161, 164
of real estate portfolios, 6:23
performance appraisal, 6:256
performance attribution, 1:100; 6:290
performance calculation, 1:98–99
methodology disclosure, 1:100–101
using selected accounts, 1:100
performance evaluation
autoregressive models for time-series analysis, 1:456–458
benchmarks for, 1:93
in machine learning, 1:380
objectivity of, 1:33
of portfolio managers, 1:274–275
for portfolios, 6:256
performance fees, 6:157
performance goals, unethical behavior to meet, 3:215
performance presentation, 1:99–100
Performance Presentation [Standard III(D)], 1:97–101
application of the standard, 1:98–101
compliance procedures, 1:98
guidance, 1:97–98
text of, 1:17, 97
performance reporting, 1:44–45
performance triggers, in asset-backed securities, 5:250
periodic pension costs
and actuarial gains/losses, 2:83
for DB pension plans, 2:82–85
on income statements, 2:98–101
in other comprehensive income, 2:82–83, 98
total, 2:98
Permira, 6:136
permissioned networks, 1:255
perpetual preferred stock, 4:216–217
perpetuities
defined, 4:216
residual income model for valuing, 4:512–514
perpetuity calculations, long-term forecast, 4:168
perquisites, 3:243–244
Perry, S., 6:155n.8
per-share residual income forecasts, 4:498–499
persistence
earnings, 2:313–318, 4:386
income, 4:511
personal actions, 1:55
personal computer industry, 153–163
personal incentives, for M&As, 3:285
personal trading and conflict of interest, 1:155
personal-use assets, 6:249n.2
personnel
preventing overlap of, 1:62
privey to recommendation, 1:84
reporting requirements for, 1:159–160
Peru
natural resources, 1:641
real GDP per capita, 1:622, 677, 678
peso, Mexican
currency code, 1:605
Mexican peso crisis (1994), 1:588, 594
and Swiss franc, 1:542
pet projects, 3:8, 56
Petroleo Brasileiro (Petrobras), 4:25, 22–32, 273
petroleum, see crude oil
Petrópolis, 4:137
PF CLOs. see project finance
collateralized loan obligations
P/F. see price-to-funds from operations
Index

Pfizer, 3:208–209
Philippines
natural resources, 1:640
real GDP per capita, 1:621, 677, 678
physical capital
and convergence in open economy, 1:678, 679
and economic growth, 1:647–649
physical delivery, 6:210–211
physical deterioration, 6:46–48
physical settlement, 3:273
PI, see profitability index
PIC, see paid in capital
PIMCO Total Return Fund, 6:476–477
Pills, in foreign exchange market, 1:542
placement fees, 6:157
plagiarism, 1:49–51
and misrepresentation, 1:45–46
policies on, 1:47
planning step (portfolio management), 6:251–254
capital market expectations, 6:254
investment policy statements, 6:251, 253–254
investor objectives and constraints, 6:251
strategic asset allocation, 6:254
P&L statements. see income statements
PME, see Public Market Equivalent point estimates, 1:527
points, of forward exchange rate quotes, 1:551–552
poison pills, 3:254, 294
poison puts, 3:294
Poland, 3:256n.18
policy rates
and business cycles, 6:405–406
Taylor rule for, 6:407–409
and yield curve spreads, 6:418–419
political stability, in developing vs. developed countries, 1:624
pollution, 1:707–709
poled data, model misspecification
with, 1:364, 372
pooled investment vehicles, managers of, 2:216
pooling of interests accounting method, 2:37, 42n.29
poor-quality earnings, 2:319, see also
low-quality reporting, see low-quality financial reporting
population growth, economic and, 1:641–642
Porter, Michael E., 4:136
portfolio(s)
arbitrage, 6:283
dynamic, 5:377
expected return to, 6:280–281
factor, 6:281
measuring performance of, 6:23
monitoring, 6:255
multifactor models of (see multifactor models of portfolios)
optimal, 6:482–487
performance attribution for, 6:290
performance evaluation for, 6:256
private real estate investments in, 6:65
publicly traded real estate securities in, 6:79–80
pure factor, 6:281
rebalancing, 6:255
revision of, 6:255
suitability of investment for, 1:94–95
viewing swaps as, 5:343
portfolio balance approach, for exchange rates, 1:590–592
portfolio balance channel, current account, 1:577–578
portfolio construction
with macroeconomic factor model, 6:301–302
multifactor models for, 6:300–302
risk and return of optimal portfolio, 6:482–487
portfolio decision making, strategic, 6:303
portfolio duration, 5:154–155
portfolio insurance, 6:364
portfolio investment perspective, 6:250
portfolio management, 6:247–276
about, 6:248
active (see active portfolio management)
defined, 6:256–257
dynamics of, 6:264
ethical responsibilities of portfolio managers, 6:265
execution step, 6:254–255
feedback step, 6:255–256
future of, 6:264–265
in investment management, 6:248–250
investment objectives, 6:257–261
return objective, 6:259–261
risk objective, 6:257–259
investor constraints, 6:261–264
legal and regulatory factors, 6:263
liquidity, 6:262
tax concerns, 6:263
time horizon, 6:262–263
unique circumstances, 6:263–264
planning step, 6:251–254
capital market expectations, 6:254
investment policy statements, 6:251, 253–254
investor objectives and constraints, 6:251
strategic asset allocation, 6:254
and portfolio perspective on investing, 6:250
practice problems, 6:268–273
as process, 6:251
solutions to problems, 6:274–276
portfolio managers
ethical responsibilities of, 6:265
independence of, 1:31
performance evaluation for, 1:274–275
risk budgeting, 6:363
portfolio returns, for no arbitrage condition, 6:282–284
Portand General Electric Co., 4:439
Portugal
active return and weights for equities, 6:500, 503, 504
commercial property values, 4:456
default-free government bonds, 6:425
OECD Principles, 3:256n.18
position delta, 5:468, 470
position equivalences (for derivatives), 5:454–459
covered calls, 5:468
foreign currency options, 5:457–458
protective puts, 5:468
synthetic assets with futures/forwards, 5:456
synthetic call options, 5:457
synthetic long assets, 5:454–455
synthetic put options, 5:456–457
synthetic short assets, 5:455
position limits
for asset managers, 6:356
for market risk management, 6:363
position size, 6:349
positive serial correlation, 1:356–358
POST, see post-money valuation
post-auditing, 3:7
post-employment benefits, 2:76–102
and DB pension plan obligations, 2:79–80
disclosure, 2:92–102
assumptions, 2:93–97
cash flow information, 2:101–102
classification of periodic pension costs in P&L, 2:99–101
net pension liabilities/assets, 2:97
periodic pension costs in P&L vs. OCI, 2:98
total periodic pension costs, 2:98
US health care costs, 2:95–97
financial statement reporting, 2:81–92
assumptions and actuarial gains/losses, 2:85–92
DB pension plans, 2:81–85
DC pension plans, 2:81
types of, 2:77–79
post-money valuation (POST), 6:148–149, 166–167
post-offer defense mechanisms for takeovers, 3:296–298
and crown jewel defense, 3:297
greenmail, 3:296
just say no defense, 3:296
leveraged recapitalization, 3:297
litigation, 3:296
Pac-Man defense, 3:297
share repurchase, 3:297
white knight defense, 3:297–298
white square defense, 3:298
Potash Corporation of Saskatchewan, Inc., 3:180–182
potential GDP, economic growth and, 1:620, 628–633
potential output, growth accounting equation for, 1:638
takeover, 3:310
term, 5:39–40
upfront, 5:271–272, 281, 283–284
premiumization, 4:137
premium leg, CDS contract, 5:280, 281
pre-money valuation (PRE), 6:148–149, 167
pre-offer defense mechanisms for takeovers, 3:293–296
fair price amendments, 3:295
golden parachutes, 3:296
poison pills, 3:294
restricted voting rights, 3:295
restrictive takeover laws, 3:294–295
staggered boards of directors, 3:295
supermajority voting provisions, 3:295
presentation currency defined, 2:131
parent's, 2:151–154
presentations, 1:99–100. see also Performance Presentation [Standard III(D)]
present value
adjusted, 2:86n.2
of annuities, 5:417–418
of cash flows, 6:44
of CDS spread, 5:283
discounted lease payments, 2:404–405
of expected loss, 5:205
of FCFF, 4:287
of FCFF, 4:286–287
and fixed swap rate, 5:347–348
net, 3:10–11, 17–22
capital projects with real options, 3:53
NPV profile, 3:17–18
ranking conflicts between IRR and, 3:18–22
stock prices, 3:26–27
of payment stream, 5:283
risk neutral, 6:390
swap value based on, 5:349
value models, 4:199–207
as absolute valuation models, 4:23–24
for analysis of financial markets, 6:380–382
and build-up approaches, 4:85
for Coca-Cola Bottling Company and Hormel Foods, 4:202–204
definitions of cash flows for, 4:201–207
dividends in, 4:201–204
free cash flows in, 4:204–205
for future cash flows, 4:199–201
and geometric mean, 4:64
and macroeconomic factors, 6:394–395
residual income in, 4:205–206
value of growth opportunities (PVG0), 4:220–222
present value of the defined benefit obligation (PVDBO), 2:79–80
Preservation of Confidentiality
[Standard III(E),] 1:101–105
application of the standard, 1:103–105
compliance procedures, 1:103
guidance, 1:101–102
compliance with laws, 1:102
electronic information and security, 1:102
professional conduct investigations by CFA Institute, 1:102
status of clients, 1:102
text of, 1:17, 101
press, financial, 2:358–359
press releases, 1:61; 4:16
Preston Partners (case study), 1:220–224
case facts, 1:220–221
deviation [Standard III(B)], 1:222–223
responsibilities of supervisors
[Standard IV(C),] 1:223–224
suitability [Standard III(C)], 1:221–222
pre-tax interest coverage, 6:433
pre-tax operating margin
assumptions about, in simulations, 1:252
of software companies, 1:521–522
at US building retailers, 1:524
price(s)
acquisition, 2:40
adjusted, 5:334
appreciation of, 6:13
arbitrage pricing theory, 3:49
ask, 1:541
asset, 1:70–72
bid, 1:541, 544–548
break even
for bear spreads, 5:476
for bull spreads, 5:474–475
for covered calls, 5:462, 463
derivatives strategies, 5:485–487
for protective puts, 5:467
call, 5:123
capital asset pricing model, 3:49
clean, 5:333
conversion, 5:167, 168, 171–172
entry, 4:561
equilibrium, 6:386, 387
excess purchase, 2:28–30
ex-dividend, 3:136
exercise, 5:474
exit, 4:561
factor, 6:281
fair price amendments, 3:295
fixed, 3:162
forward (see forward rates)
futures
in carry arbitrage model, 5:343
currency futures, 5:338
defined, 5:309; 6:209
equity futures, 5:322
fixed-income futures, 5:334–337
globalization of, 6:211
interest rate futures, 5:324–325
notation for pricing, 5:309–311
and spot prices, 6:203, 204
as government regulatory tool, 1:708–709
growth rate implied by stock, 4:219–220
home, 6:21
law of one, 1:66; 4:380–381; 5:77
from LBO model, 6:146
market conversion, 5:171–172
and market value of property, 6:24
offer, 1:541, 544–548
oil, 1:471–472
Index

of options and structural models, 5:217–218
and volatility, 5:485–486
and personal trading practices, 1:69–70
quoted, 5:33
real estate, 6:10
rental price of capital, 1:634
share repurchase, 3:162
of shares for venture capital, 6:167
stock
and dividend reductions, 3:143
and dividend vs. share purchase decision, 3:170
growth rate implied by, 4:219–220
and net present value, 3:26–27
target, 5:461–462
terminal share, 4:210
transfer, 2:183
and valuation of private equity stake, 6:138
value vs., 4:6–8
volume and price approach, 4:112
Price, George, 2:335, 336
price bubbles, 6:53
price currency, 1:541, 550
priced risk, 6:278
price elasticity of demand, 4:146, 147
price momentum, 4:453–454
price multiples, 4:382–439
defined, 4:378
enterprise multiples vs., 4:447–448
for guideline transactions method, 4:584
justified, 4:382
method of comparables for, 4:379–380
price to book value, 4:414–424
price to cash flow, 4:331–436
price to earnings ratio, 4:382–414
price to sales, 4:425–431
from residual income model, 4:515
price quotations, spread in, 5:30–33
price return, 6:219–220
price risk, 6:216
price-setting option, 3:52
price-to-adjusted funds from operations (P/FFO)
advantages and drawbacks, 6:109–110
in valuation of REIT stocks, 6:104
price to book value (P/B), 4:414–424
adjusting book value, 4:419–422
determining book value, 4:417–422
drawbacks to using, 4:415–416
equity strategists’ use of, 6:446
and inverse ratio, 4:392
P/E vs., 4:414–415
rationale for, 4:414–415
and residual income, 4:505–506
valuation based on comparables, 4:432–435
drawbacks to using, 4:432
and inverse ratio, 4:392
price to dividends and dividend yield, 4:436–439
calculating dividend yield, 4:437–438
valuation based on comparables, 4:438–439
valuation based on forecasted fundamentals, 4:438
rationale for, 4:432
valuation based on comparables, 4:436
valuation based on forecasted fundamentals, 4:435–436
price to dividends (P/D), 4:336–439
calculating dividend yield, 4:437–438
and inverse ratio, 4:392
valuation based on comparables, 4:438–439
valuation based on forecasted fundamentals, 4:438
price to earnings ratio (P/E), 4:382–414
alternative definitions, 4:384–385
in analysis of long-term equity investment, 2:401
based on cross-sectional regression, 4:397–398
and bootstrap effect, 3:284–285
in cross-country comparisons, 4:410–412
defined, 6:445
and dividend discount model, 4:228–229
for equities valuation, 6:445–447
forward, 4:381, 392–397; 6:445–446
and GGM equity risk premium estimate, 4:69
and Gordon growth model, 4:222–224
harmonic mean, 4:457–459
historical (trailing), 6:445
and inflation, 4:410–412
and inverse, 4:392
and macroeconomic equity risk premium estimate, 4:70
P/B vs., 4:414–415
and present value of opportunities, 4:222
real cyclically adjusted, 6:447
in relative valuation model, 4:225
and stock dividends, 3:131
terminal price multiples, 4:412–414
based on comparables, 4:413
based on fundamentals, 4:412
in valuation of mature growth phase, 4:413–414
trailing P/E, 4:385–392
and business-cycle influence, 4:438–390
and comparability with other companies, 4:439
with negative, zero, or low earnings, 4:390–392
and nonrecurring items, 4:386–388
and two-stage dividend discount model, 4:228–229
valuation based on comparables, 4:399–410
historical P/E of company as comparable, 4:409–410
industry and sector multiples, 4:405
overall market multiple, 4:405–409
peer-company multiples, 4:401–405
valuation based on forecasted fundamentals, 4:395–398
justified P/E, 4:395–397
P/E based on cross-sectional regression, 4:397–398
price-to-funds from operations (P/FFO)
advantages and drawbacks, 6:109–110
in valuation of REIT stocks, 6:104
price to sales (P/S), 4:425–431
determining sales, 4:426–428
and inverse ratio, 4:392
and revenue recognition, 4:426–428
valuation based on comparables, 4:430–431
valuation based on forecasted fundamentals, 4:439–430
PricewaterhouseCoopers LLP, 2:347–349
pricing. see also specific pricing models
bonds
with binomial interest rate trees, 5:86–87
with credit premiums, 6:426
default-free nominal coupon-paying bonds, 6:402–403
with Monte Carlo method, 5:100–101
commercial real estate, 6:453–455
credit default swaps, 5:277–286
basic concepts, 5:278–281
changes in, 5:284–285
conventions in, 5:282–284
credit curve, 5:281–282
monetizing gains and losses, 5:285–286
employee stock options, 2:106–107
equities, 6:437
equity REITs, 6:88
forward commitments, 5:307–373
about, 5:307
arbitrage-free principles, 5:308–309
forward contracts, 5:309–343
futures contracts, 5:322–343
swap contracts, 5:343–361
forward contracts
cash flows with forward market price too high, 5:314–315
cash flows with forward market price too low, 5:315–316
currency forwards, 5:338–341
equity forwards, 5:322–324
interest rate forwards, 5:328–330
notion for pricing, 5:309–311
forward pricing model, 5:7
futures contracts
currency futures, 5:338
equity futures, 5:322
fixed-income futures, 5:334–337
interest rate futures, 5:324–325
notion for pricing, 5:309–311
mispricing, 4:7–8
real-time, 6:537
swap contracts
currency swaps, 5:350–354
equity swaps, 5:359–360
interest rate swaps, 5:27, 346–348
valuation vs., 5:308
principal-agent problem, 3:230
principal-agent relationships, 3:206–207
principal components analysis (PCA), 1:389, 5:47–50
principal components models, 6:285
prior coverage, 1:38
prior employers, 1:99, 110
private fund, in performance presentation, 1:99
Priority of Transactions [Standard VI(B)], 1:157–162
application of the standard, 1:160–162
in case studies, 1:228
compliance procedures, 1:158–160
guidance, 1:157–158
accounts with beneficial ownership, 1:158
avoiding potential conflicts, 1:157
nonpublic information, 1:158
personal trading and trading for clients, 1:157
text of, 1:18, 157
prior transactions method (PTM), 4:579, 586
prior work, ownership of, 1:111
privacy, internet and, 1:715
private company valuation, 4:555–608
about, 4:556
approaches, 4:562–596
asset-based approach, 4:586–588
build-up method for, 4:85–88
cash flow estimation issue, 4:567–569
discounts, 4:588–595
application of discounts, 4:592–594
lack of control discounts, 4:590
lack of marketability discounts, 4:591–592
and premiums, 4:588–589
earnings normalization issue, 4:563–566
equity valuation in, 4:110
income approach, 4:569–578
capitalized cash flow method, 4:575–577
and discount rate for private company, 4:571–574
estimations of required rate of return, 4:570–574
excess earnings method, 4:577–578
free cash flow method, 4:575
market approach, 4:579–586
guideline public company method, 4:580–583
guideline transactions method, 4:584–586
prior transactions method, 4:586
practice problems, 4:599–605
public company valuation vs., 4:556–558
company-specific factors, 4:557–558
stock-specific factors in, 4:558
reasons for performing, 4:558–560
solutions to problems, 4:606–608
standards and practices for, 4:595–596
standards of value, 4:560–562
private equity
classification of, 6:137
corporate governance terms, 6:154–156
defined, 6:136
economic terms, 6:153–154
fund structures, 6:152–156
in global economy, 6:136
risks and costs of, 6:156–157
value creation for, 6:141–143
private equity funds, 6:152–156
corporate governance terms for, 6:154–156
economic terms for, 6:153–154
performance of, 6:159–161, 164
risks and costs of investing, 6:156–157
structures of, 6:152–156
valuation of, 6:158–159
private equity valuation, 6:135–187
about, 6:138–141
in buyout transactions, 6:144–148
classification of private equity, 6:137–138
due diligence, 6:158
Europa Venture Partners III case study, 6:161–164
exit routes for investments, 6:149–151
market data in, 6:143–144
net asset value, 6:158–159
practice problems, 6:178–183
private equity funds, 6:152–161
and private equity in global economy, 6:136
risks and costs of private equity investments, 6:156–157
solutions to problems, 6:184–187
value creation for private equity, 6:141–143
for venture capital transactions buyout vs., 6:144–145
issues with valuation, 6:148–149
venture capital method, 6:166–177
private market value, 4:26
direct placements, limits on, 1:159
private real estate investments, 6:55–78
about, 6:67–7
characteristics of real estate, 6:91–11
commercial real estate
types of, 6:19–22
valuation of, 6:22–54
debt investments, 6:61–64, 81
due diligence for, 6:54–55
equity investments, 6:13–61, 81
benefits of, 6:13–15
international, 6:56–57
returns from, 6:17–18
risk with, 6:15–18
types of commercial real estate, 6:19–22
valuation of commercial real estate, 6:22–54
equity REITs vs., 6:85–86, 88–89
practice problems, 6:67–73
property classifications, 6:11–13
public vs., 6:7–9, 81
real estate indexes, 6:37–61
solutions to problems, 6:74–78
valuation of, 6:22–54
appraisals in, 6:22–25
cost approach, 6:46–51
and highest and best use value, 6:26–27
income approach, 6:27–46
overview of approaches, 6:25–27
reconciliation of, 6:53–54
sales comparison approach, 6:51–53
private real estate investment trusts, 6:82

Index
probabilistic inputs, number of, 1:522
probabilistic risk assessment approaches, 1:519–533
about, 1:519
comparing, 1:530–531
in electricity, commodities, and technology markets, 1:532
function of, 1:533
and risk-adjusted value, 1:531–532
simulations, 1:520–530
with constraints, 1:527–528
decision making based on, 1:526–527
Home Depot example, 1:523–526
issues with, 1:528–529
and risk-adjusted value, 1:529–530
steps in, 1:520–523
probabilistic variables, 1:520
correlation between, 1:522, 529
defining probability distributions for, 1:520–522
determining, 1:520
with unstable correlations, 1:529
probability(ies)
cumulative, 1:735–736
of “in the money” expiration, 5:408
risk-neutral, 5:384, 388
in BSM model, 5:405
implied, 5:43
in one-period binomial model, 5:384
in two-period binomial model, 5:388, 389
probability distributions
defining, 1:520–522
for expected value, 1:527
fit of real data to, 1:529
non-stationary, 1:529
and number of required simulations, 1:522
probability of default, 5:278–279
of asset-backed securities, 5:249
of corporate bonds, 5:224, 240
and credit ratings, 5:212, 237
in credit risk modeling, 5:203–204
credit spreads for bonds with high, 5:247
of floating-rate notes, 5:229, 230
in valuation of risky bonds, 5:146
of zero-coupon bonds, 5:205, 244–245
probability of survival, 5:279, 280
probit models, 1:377
procedural law, 1:705
Procter & Gamble Company dividends, 3:143
foreign subsidiaries, 2:130
operational cost structure, 4:120, 121
sales growth disclosures, 2:187–189
procurement process, 1:34
product(s)
bundling of, 1:716
joint, 1:721
of life and health insurance companies, 2:273–276
marginal product of capital, 1:634
new, 3:7
of property and casualty insurance companies, 2:265–266
product differentiation, cross-border M&As for, 3:287
product group, capital allocation by, 2:392–395
production-flexibility option, 3:52, 53
production function, economic growth and, 1:633–635, 639
productivity
    diminishing marginal, 1:634–635 of labor, 1:634
    and taxes/regulatory systems of developing countries, 1:625
    total factor, 1:633
    and capital deepening, 1:635–637 in growth accounting equation, 1:637–638
    and steady state of growth equilibrium, 1:664
    and technology, 1:650–652
    and US economic growth, 1:670–671
product line analysis of revenue, 4:109
professional conduct. see Standards of Professional Conduct
professional conduct investigations, 1:102
Professional Conduct Program (PCP), 1:9–10, 23, 54, 102
Professional Conduct Statement, 1:171; 1:172
professional designations, order of, 1:174
professionalism, 1:54
Professionalism [Standard of Professional Conduct I], 1:21–56
Independence and Objectivity [Standard I(B)], 1:30–42
    application of the standard, 1:36–42 in case studies, 1:215, 219
    compliance procedures, 1:35–36 guidance, 1:30–35
text of, 1:16, 30
Knowledge of the Law [Standard I(A)], 1:21–29
    application of the standard, 1:27–29 in case studies, 1:214–215
    compliance procedures, 1:26–27
guidance, 1:21–25
text of, 1:16, 21
Misconduct [Standard I(D)], 1:53–56
    application of the standard, 1:54–56 compliance procedures, 1:54 guidance, 1:53–54
text of, 1:16, 53
Misrepresentation [Standard I(C)], 1:43–53
    application of the standard, 1:48–53 compliance procedures, 1:46–47
guidance, 1:43–46
text of, 1:16
profit
    professional misconduct, 1:55–56
net operating profit less adjusted taxes, 3:306–307; 4:133
    operating, 2:136–137, 398; 4:175–176
    protective puts for protection of, 5:464–466
    on short puts, 5:469
    and social responsibility, 3:216–217 with straddles, 5:482
profitability
    of carry trades, 1:582
    and goodwill impairments/provisions, 2:381–382
    and revenue growth, 3:209
    stakeholders’ view of, 3:204–206
    profitability index (PI), 3:16–17
    profit and loss statements. see income statements
    profit growth, 3:204–206
    profit margin, 2:534
    pro forma balance sheets, 4:181–182
    pro forma cash flow statements, 4:177–182
    capital investment forecast, 4:178
    depreciation forecast, 4:178
    and forecasted balance sheet, 4:181–182
    forecasted cash flow statement, 4:179–181
    working capital forecast, 4:178–179
    pro forma income, disclosures of, 3:313
    pro forma income statements, 4:172–177
    corporate income tax forecast, 4:177
cost of goods sold, 4:173
    non-operating expenses, 4:176–177
    operating profit, 4:175–176
    revenue forecasts, 4:172–173
    selling, general, and administrative costs, 4:173–175
    pro forma tables, research report, 4:36
    programming languages, 1:248–249
    projected benefit obligation (PBO), 2:79–80
    projected unit credit method, 2:85
    project finance collateralized loan obligations (PF CLOs), 5:248
    projection risk, 4:571
    project sequencing, 3:10
    promotion (company), 1:69
    promotions (employee), 3:219–220
    property
        access to, 6:86
        assessed value of, 6:223
        classifications of, 6:11–13
        demand and lease terms for, 6:20–21
        effective yield of, 6:41
        fully let, 6:30
        intellectual, 1:715; 3:210
        investment, 6:98–99
        renovation of, 6:31–32
        reversion valuation of, 6:37–39, 43–44
        subject, 6:25
        property, plant, and equipment (PP&E), 1:133
        property analysis, WorldCom, 2:328–329
        property and casualty (P&C) insurance companies, 2:265–273
        capitalization, 2:273
        earnings characteristics, 2:266–270
    as financial institutions, 2:217
    investment returns, 2:270–271
    life and health insurance companies vs., 2:264
    liquidity, 2:71–273
    products and distributions, 2:265–266
    property insurance policies, 2:266
    property management, real estate, 6:8, 10, 12, 16
    property rights, 1:624, 725
    property risk premium, 6:457
    proportionate consolidation, by joint ventures, 2:23–24
    proposals for capital projects, evaluating, 3:7
    propping, 2:331
    proprietary trading procedures, 1:63
    prosecution, for violation of regulations, 1:710
    prospective P/E, 4:384
    protection leg, CDS contract, 5:280, 281
    protective puts, 5:459, 464–468, 473
    and collars, 5:470–473
    defined, 5:459
    investment objectives of, 5:464–468
    portfolio protection with, 5:489–490
    position equivalence for, 5:468
    profit and loss at expiration for, 5:466–467
    risk with, 5:470
    “Protocol for Broker Recruiting,” 1:107
    provision(s) for loan losses, 2:249–252
    profitability adjusted for, 2:381–382
    proxy-access rules, 1:719
    proxy fight, 3:293
    proxy statement, 3:292
    Proxy Statement (SEC Form DEF 14A), 3:235, 237
    proxy voting, 1:76–78; 3:248
    prudence
        and loyalty/care (see Loyalty, Prudence, and Care [Standard III(A)]), 1:718
    and regulation of financial markets, 1:718
    Prudential Regulation Authority, 2:218
    prudential supervision, 1:708
    Prudential Supervision and Resolution Authority, 2:218
    P/S. see price to sales
    pseudo liabilities, investors’ 6:258
    PSM. see Pastor–Stambaugh model
    pth-order autoregressive (AR/p), 1:448
    pth-order autoregressive conditional heteroskedasticity (ARCH/p), 1:483–484
    PTM. see prior transactions method
    public capital, in production function, 1:639
    public companies
        beta estimation for, 4:73–77
        independence and objectivity of, 1:33
        valuation of private vs., 4:556–558
    Public Company Accounting Oversight Board (PCAOB), 1:704
    public dissemination, achieving, 1:60
    public goods, regulation of, 1:706
    public infrastructure, economic growth and, 1:653
Publicis Groupe, 2:404–406
publicly traded real estate securities, 6:79–134
advantages of, 6:85–88
disadvantages of, 6:88–90
equity REITs, 6:82–97
characteristics of, 6:84–90
due diligence, 6:90–91, 95–96
economic drivers for, 6:94–96
market for, 6:82–84
property subtypes, 6:91–96
structure of, 6:84
in portfolios, 6:79–80
practice problems, 6:127–131
private real estate investments vs., 6:7–9, 81
real estate operating companies, 6:79, 87
solutions to problems, 6:132–134
types of, 6:80–82
valuation, 6:98–125
accounting for investment properties, 6:98–99
Capitol Shopping Center REIT Inc case study, 6:113–125
discounted cash flow approach, 6:110–113
net asset value approach, 6:98–103
relative value approach, 6:104–110
Public Market Equivalent (PME), 6:161
public responsibilities committee, 3:251
pull factors, in economic management, 1:593
pump and dump strategy, 1:72
pump-priming strategy, 1:71
purchase contracts, 2:343
purchase methods, business
combination, 2:37
purchase price, excess, 2:28–30
purchasing power gain, 2:173
purchasing power loss, 2:173
purchasing power parity (PPP)
and Dornbusch overshooting model, 1:588
ex ante version of, 1:565, 570, 571
and exchange rate determination, 1:564–567
and international Fisher effect, 1:569–570
and measuring economic growth with GDP, 1:621
and monetary approach, 1:587–588
pure expectations theory, 5:33
pure factor portfolio, 6:281
purpose, of financial statement analysis, 2:373, 403
push factors, in economic management, 1:593
putable bonds, 5:127–150
convertible, 5:173
default-free
bonds at zero interest rate volatility, 5:130–132
bonds with interest rate volatility, 5:137–138, 140–145
effective convexity of, 5:159–161
effective duration for, 5:153–154
embedded options of, 5:124
extendible vs., 5:142
interest rate volatility
bonds at zero volatility, 5:130–131
bonds with volatility, 5:137–138, 140–145
and value of bonds, 5:132–134
key rate duration for, 5:158
one-sided duration for, 5:155, 156
and optimal exercise of options, 5:131
risks, 5:145–150
interest rate volatility and option-adjusted spread, 5:147–149
option-adjusted spread, 5:145–147
scenario analysis of bonds with options, 5:149–150
and straight bonds/options, 5:127–128
and valuation of default-/option-free bonds, 5:128–129
and yield curve, 5:136–137
put–call parity
finding value of put based on, 5:386, 408, 412
for futures options, 5:412
and rho, 5:428
in swaption valuation, 5:419
testing bond analytics for, 5:178
and Vega of call options, 5:427
put options (puts), 5:123
Black model for, 5:412
BSM model for, 5:404, 406–409
bull spreads with, 5:476n.36
cash-secured, 5:468–469
for change-of-control events, 5:169
contingent, 5:163
convertible bonds with, 5:169, 173
and credit default swaps, 5:269
delta approximation for, 5:421, 422
defa for, 5:420, 6:341
delta–plus–gamma approximations for, 5:424
embedded (see putable bonds)
estate, 5:125
exercise values for, 5:379
gamma for, 5:424
interest rate, 5:414, 415
on interest rates, 5:400–401
lower bounds of, 5:427
notation for, 5:379
one-period binomial model for, 5:383–384, 386
protective, 5:459, 464–468, 473
and collars, 5:470–473
defined, 5:459
investment objectives of, 5:464–468
position equivalence for, 5:468
risk with, 5:470
and putable/straight bonds, 5:127–128
putting down lack of marketability discounts with, 4:591
rho of, 5:428–429
synthetic, 5:455–457
two-period binomial model for, 5:387, 389–398
writing, 5:491
p-value, 1:299, 333
PVDBO. see present value of the defined benefit obligation
PVGO. see present value of growth opportunities
Python programming language, 1:248
Q
QE, see quantitative easing
qth order moving average model (MA/q) model, 1:473
qualifications, board of directors’, 2:338–239
qualification summary, 1:47
qualified investors, 6:153, 156
qualitative ESG factors, 4:331
qualitative variables
dependent, 1:376–378
as dummy variables, 1:344–348
quality
asset, 2:223–228, 245–252
balance sheet, 2:342–346
clear presentation, 2:346
completeness, 2:343
Sealed Air Corporation, 2:344–346
unbiased measurement, 2:343
cash flow, 2:333–342
classification shifting, 2:339–342
evaluating, 2:334–342
indicators of quality, 2:333–334
Nautica Enterprises, 2:340–342
Satyam Computer Services, 2:334–338
Sunbeam, 2:338–339
earnings, 2:310–333
analysis of, 4:18–22
bankruptcy prediction models, 2:331–332
defined, 2:290
indicators of quality, 2:310–319
in long-term equity investment case study, 2:395–396
relationship of financial reporting quality and, 2:291
SEC case examples, 2:319–331
financial reporting (see financial reporting quality) of financial reports, 2:292
results, 2:290, 342
quantitative easing (QE), 1:588; 5:35–36
quantitative ESG factors, 4:331
quantitatively oriented financial models, 1:129, 134–135
quantitatively oriented research, 1:128–129
quantitative models of misreporting likelihood
Beneish model, 2:306–309
limitations of, 2:309
variables for detecting misstatement, 2:309
quotations, attributing, 1:47
quoted margin, for floating-rate notes, 5:227
quoted price, for bonds, 5:333
quote stuffing, 6:544
R
R2. see coefficient of determination
RadioShack Corporation, 2:213–214, 216
Raju, Ramalinga, 2:294–295, 337
random forest classifiers, 1:385–386
random walks, 1:376, 461–464
ratchet bonds, 5:162–163
ratchet mechanism, for private equity funds, 6:154
rate of return
average accounting, 3:15–16
economic, 3:61
internal (see internal rate of return [IRR])
projected annual, 5:206–207
required
defined, 4:53–54
as discount rate, 3:9
expected return vs., 4:54
from income approach to private company valuation, 4:570–574
on Microsoft, 4:56–57
rating agencies. see credit rating agencies
rational efficient markets formulation, 4:6–7
rationing, capital, 3:10, 40–42
ratios, 2:269–270, see also specific ratios
Rask, John, 3:218–219
raw materials, in production function, 1:639
Raymond, Lee, 3:208
R&D costs. see research and development costs
R&D expenditures. see research and development expenditures
real cash flows, inflation and, 3:37–38
real cyclically adjusted P/E (CAPE), 387–389
real cash flows, inflation and
real cycle, 2:108–109
real discount rate, 4:92, 320–321
real default-free bonds, 3:83–402
real default-free interest rates and economic growth, 6:392–395
determination of real default-free interest rates, 6:384–392
discount rate and return from, 6:381
real default-free interest rates and business cycles, 6:395–402
real default-free interest rates and business cycles, 6:395–402
determination of, 6:384–392
and inter-temporal rate of substitution, 6:384–388
and premiums on risky assets, 6:389–392
uncertainty and risk premiums in, 6:387–389
real discount rate, 4:92, 320–321
real estate
characteristics of, 6:9–11
in private company valuation, 4:564
private investments in (see private real estate investments)
securities based on (see publicly traded real estate securities)
real estate indexes, 6:57–61
appraisal-based, 6:57–61
transaction-based, 6:59–61
real estate investment trusts (REITs), see also equity real estate investment trusts
characteristics of, 6:10
defined, 6:80
estimating lack of control discounts with, 4:590
and forms of real estate investment, 6:7
tax benefits, 6:14
valuation, 6:98–125
accounting for investment properties, 6:98–99
asset-based approach, 4:587
Capitol Shopping Center REIT Inc case study, 6:113–125
discounted cash flow approach, 6:110–113
net asset value approach, 6:98–103
net asset value per share, 6:99–103
relative value approach, 6:104–110
value of, 6:22, 80
real estate operating companies (REOCs) advantages of, 6:86–87
defined, 6:80
REITs vs., 6:86–87, 96–97
valuation, 6:98–125
accounting for investment properties, 6:98–99
discounted cash flow approach, 6:110–113
net asset value approach, 6:98–103
relative value approach, 6:104–110
real estate valuation
commercial real estate, 6:22–54, 452–457
appraisals in, 6:22–25
and business cycles, 4:655–457
cost approach, 6:46–51
and highest and best use value, 6:26–27
income approach, 6:27–46
international, 6:56–57
market value, 6:23–25
overview of approaches, 6:25–27
pricing formula, 6:453–455
reconciliation of, 6:53–54
regular cash flows from real estate, 6:452–453
sales comparison approach, 6:51–53
cost approach, 6:46–51
advantages and disadvantages, 6:53
estimating depreciated replacement cost, 6:46–48
example, 6:49–51
income and sales comparison approaches vs., 6:25–27
direct capitalization method, 6:29–33
capitalization rate and discount rate, 6:29–30
defining capitalization rate, 6:29–31
discounted cash flow method vs., 6:27
with gross income multiplier, 6:32–33
with stabilized NOI, 6:31–32
income approach, 6:27–46
advantages and disadvantages, 6:45
cost and sales comparison approaches vs., 6:25–27
direct capitalization method, 6:29–33
discounted cash flow method, 6:33–45
errors in analysis, 6:45–46
in Germany, 6:56
net operating income in, 6:28–29
real exchange rates, 1:569–570
real GDP
and economic growth, 1:620–623
in simulations of revenues and expenses, 1:524–525
real interest rate(s)
default-free, 6:384–392, 395–402
differentials in, 1:580–582
in Fisher effect, 1:352–354
and potential GDP, 1:631
risk-free, 6:395
real interest rate parity, Fisher effect and, 1:567–570
reality, economic, 2:301–305
realized alpha, 4:54
realized proceeds, 6:160
realized return(s) on bonds, 5:17–19
expected vs., 4:53
risk and, 6:477, 478
realized value added, 6:497–499
real option approach to private equity valuation, 6:139
real options, 3:52–55
abandonment option, 3:52–54
flexibility options, 3:52
fundamental options, 3:52, 55
and present value of growth commodities, 4:221–222
sizing options, 3:52
timing options, 3:52
real per capita GDP and convergence hypothesis, 1:676–678
and economic growth, 1:620–623
real risk-free rate, GDP and, 6:395
real-time pricing, 6:537
real yields, 6:396–401
reasonable basis. see also Diligence and Reasonable Basis [Standard V(A)]
defined, 1:127
developing, 1:131
rebalance return, 6:222
rebalancing
and commodity indexes, 6:228
and commodity index returns, 6:233
and feedback, 6:255
recall, in ensemble learning, 1:386n.78
receivables as financial assets, 2:12–14
and revenue at Sunbeam, 2:321–322
and sales at Sunbeam, 2:321–322
securitization of, 2:53–55
trade, 5:248
receive-equity return, pay-another equity swaps, 5:358–359
receive-equity return, pay-fixed swaps, 5:356, 357
receive-equity return, pay-floating swaps, 5:357
receive-fixed equity swaps hedged with equities and bonds, 5:358
receive-fixed FRAs pay-floating, 5:416
settlement of, 5:327
valuation of, 5:331
receive-fixed pay-floating swaps, 5:419
pricing of, 5:344–345
valuation of, 5:346–348
receive-fixed swaps hedged with bonds cash flows for, 5:346
and equities, 5:358
valuation of, 5:346–347
receive-floating, pay-fixed swaps, 5:343–344, 419
receive-floating FRAs in FRA pricing, 5:329–330
pay-fixed, 5:416
settlement of, 5:327
valuation of, 5:331–333
receiver swaptions
embedded calls and, 5419
valuation of, 5417, 418
recessions, 6419, 456–457. see also
Reckitt Benckiser, 4121
reclassifications, balance sheet, 2796–298
recognition
expense, 2330–331
revenue, 2320–328
timing of, 2293–296
recommendation objectivity, 140–41
recommendations. see also Investment
Analysis, Recommendations, and
Actions [Standard of Professional
Conduct V]

fair dealing in, 1382–83
from financial statement analysis, 2401–402, 406
in investment policy statements, 1148
as material nonpublic information, 165–66
number of people privy to, 1184
reasonable basis for, 127
reconciliation, of commercial real estate
valuations, 626, 53–54
reconstitution, 579
record keeping
fintech for, 1241
supervision of, 1123
record retention, 1148
Record Retention [Standard V(C)], 1146–148
application of the standard, 1148
compliance procedures, 1147
guidance, 1146–147
local requirements, 1147
new media records, 1147
records as firm property, 1147
text of, 118, 146
records
maintenance of, 162
as property of firm, 1147, 148
recovery rate, 5273; 6430–431
bond prices based on, 5247
of corporate bonds, 5240
in credit risk modeling, 5203
and credit spreads, 5237–238
of floating-rate notes, 5232–233
of zero-coupon bonds, 5205
recurring earnings, 2310–313
Red Book (Royal Institution of Chartered
Surveyors), 657
redemption risk, 6356
reduced-form models, 5216–219
re-engineering of companies, by private
equity investors, 6141
reference entity, 5269, 271–272
reference obligation, 5269
references, employee, 154
Reference to CFA Institute, Designation
and Program [Standard VII(B)], 1171–174
application of the standard, 1173–174
compliance procedures, 1172
guidance, 1170–172
CFA designation, 1171, 172
CFA Institute membership, 1170–171
reverting to candidacy in CFA
program, 1171–172
text of, 119, 170
referral arrangements
disclosure of, 1162–164
informing firms of, 1163
interdepartmental, 1163
Referral fees [Standard VI(C)],
1162–164
application of the standard, 1162–164
compliance procedures, 1162
guidance, 1162
text of, 118, 162
refined (petroleum) products, 6193
refiners, 6198
regimes
crawling peg, 1579
multiple, 1488
time-series analysis with, 1458, 459,
488
regional banks, 2216
regional shopping malls, 692
regression, cross-sectional, 4397–398
regression analysis, 1328–378. see also
time-series analysis
analysts use of, 1328
dummy variables in, 1344–348
linear regression model, 1285–311
analysis of variance, 1305–308
assumptions in, 1289–291
coefficient of determination, 1295–297
hypothesis testing with, 1297–305
limitations, 1311
with one independent variable,
1286–289
prediction intervals, 1308–311
standard error of estimate, 1292–295
model specification, 1363–376
of functional form, 1364–372
principles of, 1363–364
of time series, 1372–376
multiple linear regression model,
1328–344
adjusted R2, 1343–344
assumptions of, 1334–339
for bid–ask spread, 1329–333
explaining returns with, 1337–339
explaining valuations of multinational
corporations with, 1335–337
hypothesis testing with, 1341–343
predicting dependent variable,
1339–341
predicting multinational corporation's
Tobin's q with, 1340
penalized regression, 1383–384
with qualitative dependent variables,
1376–378
and random walks, 1461
regressions with multiple time series,
1484–488
violations of assumptions, 1348–363
heteroskedasticity, 1349–355
multicollinearity, 1359–362
serial correlation, 1355–359
and solutions, 1362–363
regression coefficients
defined, 1286, 329
instability of, 1458–460
regression residual, 1295
regression sum of squares (RSS), 1306
regression trees, 1384–385
regular cash dividends, 1327–128
regular cash flows, from real estate,
6452–453
regularization, 1383
regulation(s), 1701–730. see also
government regulation(s)
about, 1701–702
antitrust, 3210, 299–302
on banking, 2215–216
classification of, 1702–705
of commerce, 1713–716
commodity markets, 6208
and competitive forces, 4139
cost–benefit analysis for, 1718–720
economic effects of, 1720–725
economic rationale for, 1705–708
environmental, 1725; 6193
and ethics, 113
for financial institutions, 2217
of financial markets, 1717–718
as investor constraint, 6263
and long-term forecasts, 1467–168
M&A, 3299–303
practice problems, 1728–731
for private equity investments, 6157
purpose of, for financial institutions,
2214
and pursuit of profit, 3205
regulatory tools, 1708–710
securities laws, 3302–303
self-regulation in securities markets,
1711–713
solutions to problems, 1732–733
and VaR measurement, 6334
Regulation FD (SEC), 416
Regulation National Market System
(SEC), 1720
Regulation Q (SEC), 1720–721
Regulations for Urban Land Valuation,
657
regulators, classification of, 1702–705
regulatory arbitrage, 1706–707
regulatory authorities
Basel Committee for Banking
Supervision, 2217–219
and financial institutions, 2220
regulatory burden, 1718–719
regulatory capital restrictions,
simulations with, 1527–528
regulatory capture theory, 1706
regulatory competition, 1706–707
regulatory compliance, distributed
ledger technology for, 1257
regulatory factors, in bond yields,
6423–424
regulatory information, in equity
valuation, 416
regulatory interdependencies, 1706–708
regulatory oversight, algorithmic
techniques for, 6542–544
regulatory projects, cost–benefit analysis
for, 388
regulatory risk, 3260–261
regulatory systems, of developing vs.
developed countries, 1625
regulatory tools, 1708–710
reinforcement learning, 1:381
reinsurance of cash flow, longer-term growth and, 6:111
REITs, see real estate investment trusts
REIT stocks, 6:104
related parties, gifts and entertainment from, 1:38–39
related-party transactions, 2:252; 3:247–248
relationships agency, 3:206–210, 230–234
director–shareholder conflicts, 3:233–234
information asymmetry in, 3:207–208
manager–shareholder conflicts, 3:231–233
principal–agent relationships, 3:206–207
and conflicts of interest, 1:152, 156
and earnings quality, 2:328
and expense recognition, 2:331
fund manager, 1:32, 42
independent contractor, 1:108–109
investment banking, 1:32–33
and issuer relationship pressure, 1:37–38
relatively undervalued (term), 4:25
relative movements, in exchange rates, 1:557
relative risk aversion, 6:388n.8
relative-strength indicators, 4:453–456
relative total return, in FX market, 1:581–582
relative valuation models, 4:25–26
relative value in private equity valuation, 6:138
in publicly-traded real estate security valuation, 6:104–110
Capitol Shopping Center REIT Inc case study, 6:119
funds from operations and adjusted funds from operations, 6:105–108
P/FFO and P/AFFO multiples, 6:109–110
for REIT stocks, 6:104
relative VaR, 6:337
relative version of PPP, 1:565
re-leasing costs, 6:90
relevant information, 2:292n.3
religious tenets, laws and regulations based on, 1:28–29
remedies, 2:151
remediation gains, 2:152
remediation losses, 2:152
removal for cause provision, 6:156
Remy Cointreau Group, 4:170–183
company overview, 4:171–172
industry overview, 4:170–171
pro forma balance sheet, 4:181–182
pro forma cash flow statements, 4:177–182
pro forma income statements, 4:172–177
valuation inputs, 4:182–183
renewable resources, 1:639
renewal, lease, 6:41–42
renminbi, Chinese, 1:579; 2:189, 190
renovation, property undergoing, 6:31–32
rent in arrears, 6:454n.31
changes in, 6:37–40
net, 6:92
non-cash, 6:100
open market, 6:37
passing, 6:37
for retail properties, 6:20–21
reviews of, 6:56–57
straight-line, 6:105
term, 6:37–38
rental income, 6:452
rental price of capital, 1:634
revaluation report, of SABMiller plc, 2:103
REOCs. see real estate operating companies
repackaging, of securities, 5:248
repeat sales index, 6:59–60
replacement capital (private equity class), 6:137
replacement cost, 6:46, 139
replacement projects, 3:7, 34–35
replacement reserve, 6:43
replicating strategy costs, 5:406
replication, dynamic, 5:387, 388
report(s) annual, 3:235
implementation plans, 4:32
corporate sustainability, 4:17
fictitious, 2:294–296
financial for equity valuation, 4:14, 16
fictitious, 2:294–296
for private company valuation, 4:559–560
quality spectrum of, 2:292
flash, 1:85
material nonpublic information in, 1:60
presentation of, 1:140
quality spectrum of, 2:292
research, 4:33–37
contents, 4:33–35
example, 4:34–35
format, 4:35–36
material nonpublic information in, 1:60
reported amounts, quality of financial reports and, 2:293–296
reporting fraudulent, 2:317–318
incident-reporting procedures, 1:109
likelihood of misreporting, 2:306–309
of material nonpublic information, 1:62
performance, 1:44–45
of potential unethical actions, 1:29
requirements for investment personnel, 1:159–160
research, 4:36–37
of unethical actions, 1:29
of violations, 1:27
reporting quality, 2:290, 342. see also financial reporting quality
reporting units, 4:559n.6
reproduction cost, 6:46n.13
repurchase agreements, 2:224
reputational risk, 3:261
requested favors, 1:155
request for proposal (RFP), 1:112
required rate of return defined, 4:53–54
as discount rate, 3:9
expected return vs., 4:54
from income approach to private company valuation, 4:570–574
on Microsoft, 4:56–57
required return(s) from dividend discount models, 4:239–240
from Gordon growth model, 4:224–225
and internal rate of return, 4:57–58
required return on equity, 4:71–90
build-up method, 4:85–89
bond yield plus risk premium, 4:88–89
for private business valuation, 4:85–88
CAPM model, 4:71–79
beta estimation for nonpublic companies, 4:77–79
beta estimation for public companies, 4:73–77
elements, 4:73–78
case studies, 4:56–57, 73–75, 81–83
equity risk premium, 4:58–59
international issues, 4:89–90
multifactor models, 4:79–85
Fama–French model, 4:79–83
macroeconomic, 4:84–85
Pastor–Stambaugh model, 4:83–84
statistical, 4:84
resale value, 6:43–44
research due diligence in, 1:130
traditional, 1:129, 132
independence of, 1:37–38, 40
issuer-paid, 1:34–35, 48
quantitatively oriented, 1:128–129
reasonable basis for, 1:131
and record retention, 1:148
secondary, 1:127–128
supervision of, 1:122–123, 125–126
third-party, 1:127–128, 132
research and development (R&D) costs, in-process, 2:55–56
research and development (R&D) expenditures of, 2:304
in endogenous growth model, 1:672–673
and price to book value, 4:415
and residual income, 4:528
and size, 2:55–56
and value, 1:649–650
and variability of, 4:120
research reporting, responsibilities for, 4:36–37
research reports, 4:33–37
contents, 4:33–35
example, 4:34–35
format, 4:35–36
material nonpublic information in, 1:60
reserve allowance, 6:28n.5
Reserve Bank of Australia, 2:217
Reserve Bank of India, 2:218
reserved matters, for private equity firms, 6:143
Reserve Fund, collapse of, 1:721
residential mortgage-backed securities (RMBS), 5:248, 6:80
residential real estate investment trusts, 6:91, 93
residential real estate properties, 6:11
residual autocorrelations, 1:450–452
residual capitalization rate, 3:63, 594
residual dividend policy, 3:155, 159–161
residual income valuation, 1:436
Cumulative_Ind_L2 74 June 14, 2018 9:39 PM
Reserve Fund, collapse of, 1:721
reserved matters, for private equity funds, 6:156
restrictive fiscal policy, 1:586
restrictive monetary policy, 1:586–587
restrictive takeover laws, 3:294–295
restricting costs (restructuring charges), 5:272–273
retail currency quotes, 1:543n.4
retail investors, protection of, 1:717–718
retail properties, 6:12, 20–21
retail real estate investment trusts, 6:91–92, 94, 95
retail sales
moving average for, 1:471
REITs and growth in, 6:94–95
and seasonality in time-series analysis, 1:477–480
time-series data for, 1:435
retained earnings, 2:152–153
retention rate, growth rate and, 4:243–246
Rethinking the Equity Risk Premium (Hammond, Leibowitz, and Siegel), 1:73–74
retired CFA Institute membership status, 1:173
return(s), 4:51–104. see also entries beginning required return; rate of return
abnormal, 4:7
active, 6:294–296 (see also value added [metric])
and active risk, 6:296–297
calculating, 6:473–475
decomposition of, 6:294–296
decomposition of variance in, 6:498 defined, 6:294
expected, 6:492–493, 499–506
fundamental law of active management, 6:488–492
and information ratio, 6:481
in optimal portfolio construction, 6:985
scaling forecasts of, 6:491–492
in active portfolio management, 6:477–487
all-in, 1:559–560
for appraisal-based indexes, 6:59
by asset class, 6:13, 14, 82, 85
bond capital, on Canadian dollar and Japanese yen, and discount rate, 4:1:634
collateral, 6:221–222 commodity futures, 6:213–225 constant returns to scale, 1:6:34 covariance in, 6:285
cumulative abnormal, 1:3:47–348 debt and equity, 1:2:78–279 and discount rate, 4:57, 92
disproportionate, 4:590 equity risk premium, 4:58–71 ex ante, 6:472, 477–478
internal rate of return (see internal rate of return [IRR])
from intrinsic value estimates, 4:55–57 investment life and health insurance companies, 2:278–279
property and casualty insurance companies, 2:270–271
maximizing, 3:2:04–205 measures of, 6:259
month-of-the-year effects on, 1:3:45–346 portfolio expected return to portfolio, 6:280–281
from factor sensitivities, 6:288–289 for no arbitrage condition, 6:282–284 practice problems, 4:96–100
T-bill conditional heteroskedasticity of, 1:3:53, 355 Fisher effect, 1:3:73–376
serial correlation of, 1:3:59 total, 6:420–421
variance in, 6:257, 285, 498 and weighted average cost of capital, 4:90–92 return attribution, 6:293–296
with Carhart four-factor model, 6:294–296 defined, 6:290
return on capital approach, 4:112 return on capital employed (ROCE), 4:133
return on equity (ROE), 2:277, 374n.2, 383. see also required return on equity average, 4:388 for capital projects, 3:56 and clean surplus violations, 4:516–517
Reuters Company Research, 4:400 revenue(s)
assessing quality of, 2:326–328
assumptions about growth of, 1:525
base, 1:525
diversification of, 2:274–276
earnings quality and trends in, 2:327
income statement modeling of, 4:108–114
from licensing, 2:325–326
net interest, 2:254, 256–257
normalized, 4:164–169
profitability and growth in, 3:209
on pro forma income statements, 4:172–173
as quality of earnings indicators, 4:19
and receivables at Sunbeam, 2:321–322
segment analysis of, 4:109
simulations for estimating, 1:523–526
starting points, 2:325–326
of Travelers Companies, Inc., 2:265
revenue per available room (RevPAR), 6:94
revenue recognition and earnings quality, 2:320–326
and multiple-element contracts, 2:324–326
premature/fraudulent, 2:320–324
and price to sales, 4:426–428
reverse carry arbitrage, 5:316, 336
reverse engineering, 6:540
reverse repurchase agreements, 2:224
reverse stock split, 3:133
reverse stress testing, 6:346
reverse synergy, 3:320
reversionary potential, of properties, 6:37
revaluation of property, 6:37–39, 43–44
reviewed financial statements, 4:566
reviews account, 1:77, 86, 94
compensation, 3:2:54
of compliance procedures, 1:26
for independence/objectivity, 1:36
revision, portfolio, 6:255
RevPAR. see revenue per available room
Reynolds American, Inc., 4:473
RFP. see request for proposal
rhi, 5:428–429
Rhode Island, ESG risk exposures, 4:136
Rhode Island, ESG risk exposures, 4:136
RFP. see request for proposal
Ricer. see Rogers International
Commodity Index
Rics. see Royal Institution of Chartered
Surveyors
“riding the yield curve” strategy, 5:22–23

Index 1:75
rights
drag along, 6:156
obligations and, 3:218
property, 1:624, 725
shareholders', 3:257
stock appreciation, 2:109
tag-along, 6:156
voting, 3:295
rights theories, 3:218
Rio Tinto, 6:216
risk(s)
accounting, 3:262
active, 6:296–300
and active manager guidelines, 6:296–300
and active return, 6:296–297
comparing investments, 6:299–300
decomposing, 6:297–300
defined, 6:296
factor, 6:298
for global equity portfolio, 6:499, 505
and information ratio, 6:480–481
optimal, 6:497
in optimal portfolio construction, 6:483–485
specific, 6:298–299
in active portfolio management, 6:477–487
agency, 6:157
allocation of, 6:259
asset, 3:262
benchmark tracking, 6:480 (see also active risk)
business cycle, 4:85; 6:301, 302
with collars, 5:472–473
confidence, 4:84; 6:301, 302
considered, in bank analysis, 2:242
continuous, 1:531
with convertible bonds, 5:172
correlation, 6:335
correlation across, 1:531
counterparty, 2:226; 5:449
country, 6:140
country risk rating model, 4:90
with covered calls, 3:470
fabricated, 1:574
credit
analysis of, 5:208–210
with CDS, 5:276
currency exchange rates and, 1:543, 554
default risk vs., 5:202
measures of, 5:202–204
sovereign, 6:433–436
default, 5:202; 6:382
discrete vs. continuous, 1:531
double counting of, 1:529–530, 532, 533
downsized, 5:172
evaluating price discount for, 6:390–392
ex ante, 6:472, 477–478
expected, 6:477–478, 499
and expected vs. unexpected changes in exchange rates, 1:557
ex post, 6:472, 477–478
financial, 3:262
of financial assets, 2:215
foreign exchange
and bid-offer spread, 1:542, 543
with currency futures, 5:451
disclosures about, 2:189–190
exposure to, 2:132–135
and hedging, 2:143
in Notes to Financial Statements, 2:533–534
future price, 5:456
with FX carry trades, 1:573
gamma, 5:425–426
hedging, 5:422
high minus low, 4:80; 6:284, 294–296
inflation, 4:84; 6:301, 302
information about, 2:346–359
auditor’s opinions, 2:346–350
event-specific disclosures, 2:358
financial press, 2:358–359
legal proceedings and contingencies, 2:351–355
Management Discussion and Analysis, 2:355–357
interest rate, 5:150–161
banks’ exposure to, 2:236
duration, 5:151–158
effective convexity, 5:158–161
and forward exchange rates, 1:554
for pension funds, 6:358–359
Royal Dutch Shell’s disclosure of, 2:353
and swaps, 5:276
of investment analysis, 1:139–140
investor’s ability to take risk, 6:257–259, 262–263
investor’s willingness to take risk, 6:257–259
legal, 3:261
legislative, 3:260–261
liability, 3:262
liquidity, 6:262, 382
with long straddles, 5:483
market, 6:317–375
analysis of, 3:49–51
defined, 6:318
with derivatives strategies, 5:484–485
managing, 6:361–366
measuring, 6:319–361
practice problems, 6:369–373
for private equity investments, 6:157
sensitivity to, 2:236–238, 260–263
solutions to problems, 6:374–375
market timing, 4:85; 6:301, 302
measurement of, 6:257
notification of, 1:145–146
operating, 3:261–262
operational, 3:226
in optimal portfolio, 6:482–487
price, 6:216
priced, 6:278
of private equity, 6:156–157
of private real estate investments, 6:15–17
projection, 4:571
with protective puts, 5:470
redemption, 6:536
regulatory, 3:260–261
reputational, 3:261
in research reports, 4:36
residual, 6:480
reversals of (see collars)
defined, 6:290
with fundamental factor model, 6:298–300
risk aversion, 6:387–388
risk budgeting, 6:362–363
risk capital, 3:203–204
risk-controlled active investment strategy, 6:253–254
risk decomposition, 6:322
risk exposures
with currency futures, 5:450–452
with currency swaps, 5:450–451
with derivatives strategies, 5:448–454
with equity swaps, 5:452–453
ESG, 3:260–262
foreign exchange, 2:132–135
with interest rate forwards, 5:450
with interest rate futures, 5:448–450
with interest rate swaps, 5:448–449
net asset balance sheet, 2:148
net liability balance sheet, 2:148
with stock index futures, 5:453
transaction, 2:132
risk-free rate
defined, 4:54
for historical estimates of equity risk premium, 4:60, 64–65
real, 6:395
returns in excess of, 6:279
and rho, 5:428, 429
synthetic, 5:456
risk management
commodity swaps for, 6:226–227
defined, 6:318
managing foreign exchange risk, 2:143
managing yield curve risk, 5:51–53
with trading algorithms, 6:542–543
Risk Management Committee, 2:252
risk-neutral default probability, 5:203–205, 237
risk neutrality, 5:33
risk neutral present value, 6:390
risk-neutral (RN) probability
in BSM model, 5:405
implied, 5:43
in one-period binomial model, 5:384
in two-period binomial model, 5:388, 389
risk objective, 6:257–259
risk-off mode, FX market, 1:583
risk-on mode, FX market, 1:582–583
risk premium(s)
bond yield plus, 4:88–89
credit
bonds with, 6:425–437
and credit spreads, 6:427–431
defined, 6:426
government bonds with, 6:425–426
influences on, 6:436–437
for Royal Bank of Scotland, 6:436
for default-free bonds, 6:420–423
equity, 4:58–71
and capital asset pricing model, 4:59
demand-side estimates, 4:69n.28
in equities valuation, 6:437–438
ex post, 6:444–445
forward-looking estimates, 4:68–71
historical estimates, 4:59–68
quantifying, 6:444–445
and required return on equity, 4:58–59
supply-side estimates, 4:69–71
factor, 4:79; 6:281
for inflation uncertainty, 6:402–403
property, 6:457
on risky assets, 6:389–392
and uncertainty, 6:387–389
risk profile
investment suitability for, 1:94, 96
understanding, 1:91
risk reversals. see collars
risk tolerance, 6:258, 259, 261
risk transfer
and commodity futures exchanges, 6:190
commodity swaps for, 6:226–227
risk-weighted assets (RWAs), 2:221
risk weighted bonds, 5:145–150
interest rate volatility and option-adjusted spread, 5:147–149
option-adjusted spread, 5:145–147
scenario analysis of bonds with options, 5:149–150
valuation of, in arbitrage-free framework, 5:219–234
binomial interest tree for, 5:219–221
corporate bonds, 5:223–227
floating-rate notes, 5:227–234
government bonds, 5:221–222
Rite Aid, 4:115–118
rivals. see established rivals
RMBS. see residential mortgage-backed securities
RMF risk factor
in Carhart four-factor model, 6:284, 294–296
in Fama-French model, 79, 80
RMSE. see root mean squared error
RNOA. see return on net operating assets
RN probability. see risk-neutral probability
ROA. see return on assets
robo-advisory services, 1:239, 241, 250–252
robust standard errors, 1:354, 358n.49
ROCE. see return on capital employed
ROE. see return on equity
Rogers, Jim, 6:233
Rogers International Commodity Index (RICI), 6:230, 231, 233
ROIC. see return on invested capital roll, 5:257
"rolling down the yield curve" strategy, 5:22–24
roll return, 6:220–225
Rome, ancient, 3:113
Rongde Asset Management Company Limited, 2:26
root mean squared error (RMSE), 1:457, 458
Ross, Stephen, 6:279
Royal Ahold, 2:290
Royal Bank of Canada, 5:124
Royal Bank of Scotland, 6:436
Royal Dutch Shell
accounting scandal, 3:210
Notes to Financial Statements, 2:351–355
use of disclosures, 2:352–355
Royal Institution of Chartered Surveyors (RICS), 6:56n.17, 57
Royal & Sun Alliance Group, 3:143
R programming language, 1:248
RSS. see regression sum of squares
Rule 10b-18 (SEC), 4:202n.8
Rule 144 (SEC), 4:591
rule of law, 1:624
rules-based active management, 6:301
rules-based indexes, 6:228
Rules of Procedure. see Bylaws and Rules of Procedure for Professional Conduct
rumors, addressing, 1:110–111
Russell 1000 Index, 3:174, 175, 179
Russell 2000 Growth Index, 1:275
Russell 2000 Index, 6:478, 479
Russell 2000 Value Index, 1:275
Russia
Basel Committee membership, 2:218
beer market, 4:140–144
currency crisis in, 1:596
debt crisis in, 6:434
population growth, 1:642
sovereign credit risk, 6:633
RVPL. see residual value to paid in RWAs. see risk-weighted assets
Ryanair Holdings PLC, 4:299–301
S
SABMiller plc, 2:99–101, 103, 4:140
Safe Drinking Water Act, 3:261
safety, dividend, 3:179–183
safety projects, 3:8
salary, as compensation award, 3:243–244
sales(s). see also price to sales (P/S)
cash flow valuation and growth in, 4:313, 328–330
company, 4:147–149
and cost of goods sold, 4:118
days sales outstanding, 2:321–323, 327, 4:132
days sales receivable index (DSR), 2:307
disclosures from multinationals on, 2:186–189
trend line to, 4:447
and free cash flow, 4:311–314
industry, 4:145–147
of inventory, 2:32–34
linear trend regression for, 1:441–444
log-linear trend regression for, 1:444–446
of Nestle, 2:387–388, 392–394
and receivables at Sunbeam, 2:321–322
repeat sales index, 6:59–60
retail, 1:435, 471, 477–480, 6:94–95
seasonality of, 1:474–480
sales, general, and administrative expenses index (SGAI), 2:307
sales comparison approach
cost and income approaches vs., 6:25–27
for real estate valuation, 6:51–53
sales forecasts, FCFE from, 4:314
sales growth index (SGI), 2:307
sales order backlogs, 2:304
sales pressure, 1:38
Index

- correcting for, 1:358–359
- testing for, 1:356–358
- in time-series forecasting, 1:489–490
- serial correlation and heteroskedasticity
  - adjusted standard errors, 1:358n.49
  - serial correlation consistent standard errors, 1:358n.49

- service(s)
  - additional, for select clients, 1:88
  - banking, 2:215–216
  - debt, 6:62
  - denial-of-service attacks, 6:546
  - disclosing level of, 1:86
  - new, 3:7
  - robo-advisory, 1:239, 241, 250–252
  - support, 2:325–326
  - service fees, 1:40
  - service period, 2:107
  - service providers, selecting, 1:135–136

- “set in arrears,” 5:161

- settled in arrears payment convention, 5:326, 327, 414

- settlement
  - cash, 5:273–274, 453; 6:210
  - of credit default swaps, 5:273–274
  - distributed ledger technology for, 1:256–257
  - of foreign currency transactions, 2:132–133
  - of forward rate agreements, 5:326–327
  - physical, 5:273
  - for spot exchange rate quotes, 1:541
  - for stock index futures, 5:453
  - T+1, 1:541n.2
  - T+2, 1:541

- settlement date, cash flow at, 1:554

- S&G&A expenses. see selling, general, and administrative expenses

- SGAL. see sales, general, and administrative expenses index

- SGL. see sales growth index

- shale oil, 6:192

- Shanghai A-Share Stock Price Index, 2:131

- Shanghai Commodities Exchange, 6:205

- shaping risk, 5:45–46

- share(s). see also equities (equity securities); stock(s)

- active, 6:356, 481
  - bonus issue of, 3:130 (see also stock dividends)
  - book value per share, 4:206, 414
  - computing, 4:417–418
  - and fair value accounting, 4:419–422
  - net asset value per share vs., 6:98
  - and share repurchases, 3:166–167
  - tangible, 4:418–419

- canceled, 3:161

- company limited by shares, 6:152

- company share-related factors, 6:292–293

- dividends per share, 3:155

- earnings per share, 3:155

- basic, 4:385

- and capital projects, 3:56

- diluted, 4:385

- historical average, 4:388

- for nonrecurring items, 4:386–388

- normalized, 4:388–389

- and P/E multiples, 4:379, 383

- and share repurchases, 3:164–167

- and technological cannibalization, 4:157–159

- trailing, 4:386–387

- ex-dividend, 3:138

- market, 4:111–112

- market conversion premium per share, 5:171–172

- net asset value per share
  - application of, 6:101–103
  - as benchmark, 6:98
  - calculation of, 6:99–101
  - and calculation of NAV, 6:102

- Capitol Shopping Center REIT Inc
  - case study, 6:120–121
  - premiums on, 6:103
  - for publicly traded real estate securities, 6:99–103

- as relative valuation tool, 6:102–103

- no-growth value per share, 4:221

- per-share residual income forecasts, 4:498–499

- transferability of, 3:229

- for venture capital investments, 6:167

- share-based compensation, 2:102–109

- at American Eagle Outfitters, Inc., 2:103–104

- equity valuation for, 4:10
  - as noncash changes, 4:299

- private company valuation for, 4:559
  - at SABMiller plc, 2:103

- stock appreciation rights, 1:61

- stock options, 2:106–108

- Share-Based Payment (ASC 718), 4:560n.7

- Share-Based Payment (SFAS 123R), 4:560n.7

- share-based payments, 4:10

- share count, 4:132

- shareholder agreements, 4:558

- shareholders
  - communication with, 4:10
  - conflicts with directors, 3:233–234
  - conflicts with managers, 3:231–233
  - dividends to shareholder ratio, 2:269
  - equitable treatment of, 3:258
  - equity of, 4:814
  - preference for current income vs.
    capital gains, 3:152
  - in private company valuation, 4:557
  - proxy votes by, 3:248
  - rights of, 3:257

- share price
  - see stock price
  - share repurchases, 3:161–177
  - and dividend discount model, 4:201n.3

- 218–219

- dividend vs. share repurchase decision, 3:169–177

- and dilution from employee stock options, 3:170

- example, 3:175–177

- financial leverage, 3:170–173

- managerial flexibility, 3:170

- share price, 3:170

- tax advantages, 3:170

- financial statement effects, 3:164–167

- changes in book value per share, 3:166–167

- changes in earnings per share, 3:164–166

- methods, 3:162–164

- as post-offer defense mechanism for takeovers, 3:297

- Russell 1000 companies, 3:175

- US banks, 3:174

- valuation of cash dividends vs., 3:167–169

- shark repellents, 3:294

- Sharpe, William, 6:250, 278, 471

- Sharpe ratio
  - in active portfolio management, 6:477–480
  - adjusting risk and return with, 6:579–480
  - and ex ante risk and return, 6:477–478
  - and ex post risk and return, 6:477, 478
  - information ratio vs., 6:481–482
  - in optimal portfolio construction, 6:482–484, 487

- Shell Oil Company (SOC), 2:351–355

- Shenhua, 6:216

- Sherman, Peter (case study), 1:216–219

- additional compensation arrangements
  - [Standard IV(B)], 1:219
  - case facts, 1:216–217
  - loyalty [Standard IV(A)], 1:217–219
  - Sherman Antitrust Act, 3:299

- Shiller, Robert, 6:447

- Shinkin banks, 2:216

- shock events, protective puts and, 5:465

- shopping center REITs, 3:231

- short-term stock return performance, 4:399

- short-term nominal interest rates, 6:403

- short-term investors, 6:403

- short-run exchange rate movements, 1:557

- short straddles, 5:481

- short-term default-free interest rates, 6:409, 417

- short-term government bills, 4:64–65

- short-term investors, 4:558

- short-term nominal interest rates, 6:403

- short-term stock return performance, 1:347–348

- Shuanghui, 6:195

- Shumway, Tyler, 2:332

- Sibor (Singapore Libor), 5:416

- SICAR, see société d’investissement en capital à risque

- Siegel, Laurence B., 1:143, 172–173

- SIFIs. see systemically important financial institutions

- sigma (σ). see volatility

- significance tests, of correlation

- coefficient, 1:282–285

- Silver Wheaton Corporation, 4:498–499

- similar companies, 6:143–144

- Simon, Paul, 6:166
simple linear regression. see linear regression
simple random walks, 1:464
simulated results, 1:99–100
simulations, 1:520–530
about, 1:533
with constraints, 1:527–528
decision making based on, 1:526–527
decision trees and scenario analysis vs., 1:530–531
good, 1:523
historical simulation method, 6:327–330
Home Depot example, 1:523–526
issues with, 1:528–529
Monte Carlo
and extreme events, 6:335
market risk evaluation with, 2:260–261
for private equity investments, 6:139–140
for risk analysis of capital projects, 3:45–48
for VaR estimation, 6:330–333
and risk-adjusted value, 1:529–532
running, 1:522–523
scenario analysis and decision trees vs., 1:520
steps in, 1:520–523
checking for correlation across variables, 1:522
defining probability distributions for variables, 1:520–522
determining probabilistic variables, 1:520
running simulations, 1:522–523
simultaneous dissemination, 1:85
Singapore
active return and weights for equities, 6:500, 503, 504
algorithmic trading/HFT, 6:541
Basel Committee membership, 2:218
commodity exchanges, 6:207
common law, 3:113
dividend payout ratios, 3:161
equity REITs, 6:83
Financial Stability Board, 2:219
FX market business hours, 1:542
ICT capital and investment in GDP, 1:647
natural resources, 1:639, 641
openness of economy, 1:680
publicly traded real estate equities, 6:81, 82
R&D expenditures, 1:650
real estate operating companies, 6:96
real GDP per capita, 1:626, 627
and growth in real GDP per capita, 1:677
and real GDP growth, 1:621–623
self-regulating organizations in, 1:704
Singapore Deposit Insurance Corporation Ltd., 2:220
Singer–Terhaar method, 4:72n.34
single-factor models, multifactor vs., 6:277–278
single-family houses, 6:11
single-name CDS, 5:269–270
single-stage model
for free cash flow valuation, 4:320–321
for residual income, 4:506–507
Singleton, Kenneth, 5:216
Singapore Libor, see Sibor
sinking fund bonds, 5:125–126
Siri, 1:246
6-K, Form, 4:16
size, company, 4:557, 563
size premiums, 4:570
sizing options, for capital projects, 3:52
slope, default-free yield curves, 6:415–417
slope coefficients, 1:333, 367
slow markets, 5:484
small-cap stocks
investment strategies involving, 6:449–450
month-of-the year effects on returns, 1:345–346
small minus big (SMB) risk factor in Carhart four-factor model, 6:284, 294–296
in Fama-French model, 4:80
smart contracts, 1:254
smart order routing, 6:537
SME asset-backed securities (ABS), 5:248
Smithfield Foods, 6:195
SML, see security market line
smoothing of values, with moving-average models, 1:470–472
SOC, see Shell Oil Company
social media, 1:9
and duties to employer, 1:108
limited disclosures on, 1:89
and material nonpublic information, 1:59
misrepresentation on, 1:45
retention of information on, 1:147
social responsibility, 3:216–217
société d’investissement en capital à risque (SICAR), 6:152
society, benefit of ethics to, 1:12
soft capital rationing, 3:42
soft commissions, 1:76
soft commodities (cash crops), 6:195–196
average annual sector roll return, 6:224, 225
commodity life cycle, 6:202–203
soft dollars, 1:76
software, bundling of, 1:716
software companies, pre-tax operating margin of, 1:521–522
sole proprietorships, 3:228–229
solicitation, of former clients, 1:109–114
Solow, Robert, 1:659
Solow two-factor production model, 1:638n.12
"Solvency II regime," 2:273
Son. see Sterling OverNight Index Average
Sonnenfeld, Jeffrey, 3:237
Sonoco Products Company, 4:212–213
"Soul of Dell," 3:220–221
South Africa
Basel Committee membership, 2:218
convergence with advanced countries, 1:682
exports and foreign direct investment in, 1:681
financial statements for subsidiaries of foreign companies, 2:144
historical equity risk premium, 4:61, 63
ICT capital and investment in GDP, 1:647
natural resources, 1:641
precious metals, 6:195
real GDP per capita, 1:622, 677, 678
South African Reserve Bank, 2:218
South America, 6:195. see also specific countries
South Korea
algorithmic trading/HFT, 6:541
average hours worked, 1:646
Basel Committee membership, 2:218
convergence with advanced countries, 1:682
currency crisis in, 1:596
dividend payout ratios, 3:161
economic growth, 1:654
exports and foreign direct investment in, 1:681
government bond market, 5:25
ICT capital and investment in GDP, 1:647, 648
labor and total factor productivity, 1:651
money supply growth and inflation, 1:264, 265, 269, 294, 296
natural resources, 1:639, 641
Novo Nordisk sales, 4:109, 110
OECD Principles, 3:256n.18
openness of economy, 1:680
population growth, 1:642
R&D expenditures, 1:650
real GDP per capita, 1:621–623, 626, 627, 677
swap market, 5:25
yield curve factors for government securities, 5:49–50
yield curve movements, 5:45, 47
sovereign credit risk, 6:433–436
sovereign debt, benchmark bonds and, 5:79
S/P, see sales-to-price ratio
S&P, see Standard & Poor’s Corporation
S&P 500 Composite Index, 4:406
S&P 500 Growth Index, 4:407
S&P 500 Index, 4:447
dividends for companies on, 3:142–143, 179
and Fed Model, 4:407
futures contract on, 5:453
and GDP growth, 1:630
GGM equity risk premium estimate, 4:68–69
and inflation, 1:271–272, 294
macroeconomic equity risk premium estimate, 4:70–71
market capitalization, 4:463
relative strength indicators, 4:454–456
and returns of asset classes, 6:13, 14, 82, 85
Sharpe ratio, 6:478, 479
as spot index, 5:413
survivorship bias in, 4:65n.23
total annual compound return with dividends reinvested, 3:126
in value added calculations, 6:476, 486, 487
and VIX, 5:430
yield of US Treasury bonds and, 1:286
S&P 500 Value Index, 1:497
multicollinearity, 1:360–362
multiple linear regression, 1:338–339
Spain
active return and weights for equities, 6:500, 503, 504
average hours worked, 1:646
banking regulations in, 2:215
Basel Committee membership, 2:218
corporate property values, 6:61
default-free government bonds, 6:425
economic growth, 1:682–686
Financial Stability Board, 2:219
historical equity risk premium, 4:61, 63
ICT capital and investment in GDP, 1:647, 648
labor force participation rate, 1:642, 643
labor input and potential growth, 1:644–645
natural resources, 1:640
net migration, 1:644
OECD Principles, 3:256n.18
population growth, 1:642
R&D expenditures, 1:650
real GDP per capita, 1:621, 622, 677
Spatt, C., 1:725n.31
S&P BSE 100 Index, 1:473–474
S&P BSE Sensex Index (Sensex), 4:66–67
S&P. see Standards of Practice Council
S&P Dow Jones US Index Committee, 4:462
SPDR Barclays Long-Term Treasury, 4:454–456
SPDR Bloomberg Barclays Long-Term Corporate Bond ETF (LWC)
historical VaR estimation, 6:328–329
Monte Carlo VaR estimation, 6:331–332
parametric VaR estimation, 6:324–326
VaR estimation, 6:322–323
SPDR S&P 500 ETF (SPY)
historical VaR estimation, 6:328–329
Monte Carlo VaR estimation, 6:331–332
parametric VaR estimation, 6:324–326
VaR estimation, 6:322–323
SPDR S&P Emerging Europe ETF, 4:454–456
SPDR Stoxx Europe 50 Index, 4:454–456
special dividends, 3:128–130
special purpose entities (SPEs), 2:51–55
in bank analysis, 2:240–241
of Digilog, 2:302
and effects of securitizing assets, 2:53–55
for a leased asset, 2:52–53
other business combinations vs., 2:36
and securitized debt, 5:250
tax implications of, 4:129
speculators
and commodity hedging, 6:216
in commodity markets, 6:206, 207
and Hedging Pressure Hypothesis, 6:215
SPEs. see special purpose entities
SPF. see Survey of Professional Forecasts
S&P GSCI, 6:230–232
average annual sector roll return, 6:224, 225
historical roll return, 6:223–224
rebalancing costs, 6:233
return components, 6:221–222
spillover effect, 1:646–647, 705n.13
split-offs, 3:320; 4:9
split-offs, 3:320
split-rate tax system, 3:151–152
S&P Midcap 400 Index, 4:447, 463
sponsored access, 6:543
spot
return components, 5:16
return, 6:544
crease (spall), 5:31
and effect of rollover, 6:32
for benchmark government bonds, 6:521
and interest rate volatility, 5:370–372
forward rates vs., 5:349–352
of future, 5:560–564
spot markets, 6:190
spot price and forward prices, 5:1–12
and futures price, 6:203, 204
localization of, 6:211
spot, 5:64–24
active bond portfolio management, 5:20–24
for benchmark government bonds, 5:219–220
from benchmark par curve, 5:82
currency swap pricing with, 5:352–354
currency swap valuation with, 5:355–356
current forward curve and evolution of, 5:21–22
defined, 5:7
and futures prices, 5:12–13
and spot curve, 5:7
valuation of option-free bonds with, 5:79–80
from yield curve, 5:128–129
yield to maturity, 5:116–19
spot return, 6:221–222
spread(s)
bear, 5:473, 475–476
bid–ask
multiple linear regression model for, 1:329–333
nonlinearity of functional form, 1:366–370
and variable bias, 1:365–366
bid–offer
defined, 1:541
for forward exchange rates, 1:551–554
from interbank markets vs. dealers, 1:541–542
and liquidity, 1:542–543, 554
bond, 5:282–283
bull, 5:473–479
butterfly, 5:473n.33
calendar, 5:480–481, 492; 6:209–210
CDS, 5:271, 283
and change in CDS value, 5:284
country, 4:90; 6:410n.1
credit, 5:234–247, 473, 6427–432
for banking and airline sector, 6:432
calculation of, 5:206, 224
calculation of, for corporate bonds, 5:224
and convertible bond valuation, 5:175
for credit default swaps, 5:281–285
and credit risk premiums, 6:427–431
defined, 5:202
interpreting changes in, 5:234–240
migration of, 5:215
term structure of, 5:240–247
and transition matrices, 5:214
debt, 5:473
of default-free yield curves, 6:417–419
excess, 5:250
1–, 5:29n.6, 31
Liber–OIS, 5:32–33
modified country spread model, 6:140n.1
net interest, 2:254
net profit margin, 2:384
nominal yield, 1:582
option, 5:473–481
bear spreads, 5:473, 475–476
bull spreads, 5:473–479
calendar spreads, 5:480–481, 492
refining, 5:476–479
risk with, 5:480
option-adjusted, 2:272
about, 5:145–147
and interest rate volatility, 5:147–149
as price quotation convention, 5:30–33
in price quotations, 5:30–33
swap, 5:29–31
TED, 5:32
Z-, 5:30–31, 146
spreads, 6:537
spreadsheet modeling, 4:237–238
for cash flow projections, 3:36–37
for forecasting dividends, 4:246–247
sustainable growth calculation, 4:238
valuing stock with, 4:237–238
spread trading, 6:536
Sprint, 4:89
S&P SmallCap 600 Index, 4:447, 463
S&P/TSX Canadian Index, 3:142–143
spurious correlation, 1:273
S&P US REIT Index, 6:85
SPY. see SPDR S&P 500 ETF
SQL database, 1:249
SQLite database, 1:249
SROs. see self-regulating organizations
SSE, see sum of squared errors
stabilized net operating income, 6:31–32
stable dividend policy, 3:155–161
stable funding, 2:219, 232
Staff Accounting Bulletin No. 101, SEC, 4:426, 427n.41
Staff Accounting Bulletin No. 104, SEC, 4:427
staggered boards of directors, 3:295
stakeholder impact analysis, 3:203
stakeholder payoffs, in LBO model, 6:147–148
stakeholders
corporate governance by, 3:258
and corporate performance, 3:202–206
external, 3:202
internal, 3:202
stakeholder view of ethics, 3:212–213
stand-alone methods of risk analysis, 3:42–48
Monte Carlo simulation, 3:45–48
scenario analysis, 3:44
sensitivity analysis, 3:43–44
standard deviation
and correlation coefficient, 1:269–270
of returns, 6:257
and standard error of estimate, 1:293
standard error of estimate (SEE)
heteroskedastic, 1:349–351
for hypothesis testing, 1:299
for linear regression with one variable, 1:292–295
for multiple linear regression, 1:332
standard errors
Hansen’s method of adjusting, 1:358–359
heteroskedasticity-consistent, 1:354n.42
Newey–West method of adjusting, 1:358–359
robust, 1:354, 358n.49
serial correlation of, 1:358–359
White-corrected, 1:354n.42
Standard Europe Contract, 5:270
standardized beta, 6:289
standardized unexpected earnings
(SUE), 4:452–453
standard market model, for interest rate options, 5:414–415
standard normal distribution, cumulative probabilities for, 1:735–736
Standard North American Contract, 5:270
Standard & Poor’s Corporation (S&P), 2:280; 6:248
bond ratings, 3:109, 154
CCC-rated companies, 5:214
credit ratings by, 5:212–213;
6:427n.27
Dividend Aristocrats, 3:142–143
equity classification system, 4:399
rating of US Treasuries, 6:381
Standard & Poor’s Depositary Receipt (SPDR), 4:454–456, see also specific funds
Standard & Poor’s Super 1500 Composite Index, 4:447, 448
Standards of Practice Handbook, 1:3, 5–9, 11, 14
eleventh edition, 1:7–9
revisions to, 1:6–7
on trade allocation, 1:230
Standards of Professional Conduct, 1:5–19, 21–204, see also Asset Manager Code of Professional Conduct (AMC)
adoption of, 1:10
and applicable law, 1:22–23
and CFA members’ position of trust, 4:33, 6:265
conflicts of interest [Standard VI], 1:149–164
disclosure of conflicts [Standard VI(A)], 1:18, 149–156
priority of transactions [Standard VI(B)], 1:18, 157–162
referral fees [Standard VI(C)], 1:18, 162–164
text of, 1:18
to clients [Standard III], 1:73–105
fair dealing [Standard III(B)], 1:17, 82–90, 230
loyalty, prudence, and care [Standard III(A)], 1:17, 73–81, 230
presentation performance [Standard III(D)], 1:17, 97–101
preservation of confidentiality [Standard III(E)], 1:17, 101–105
suitability [Standard III(C)], 1:17, 90–97, 233–234
text of, 1:16–17
to employers [Standard IV], 1:105–126
additional compensation arrangements [Standard IV(B)], 1:17, 116–117
loyalty [Standard IV(A)], 1:17, 105–115
responsibilities of supervisors [Standard IV(C)], 1:17, 8, 18
suitability [Standard III(C)], 1:17, 90–97, 233–234
text of, 1:17–18
evolution of, 1:6
and importance of ethics, 1:11–15
on inside information, 4:16
integrity of capital markets [Standard II], 1:56–73
market manipulation [Standard II(B)], 1:66, 68–73
material nonpublic information [Standard II(A)], 1:16, 56–67
text of, 1:16
investment analysis, recommendations, and actions [Standard V], 1:126–148
communication with clients and prospective clients [Standard V(B)], 1:8, 18, 137–146, 233–234
diligence and reasonable basis [Standard V(A)], 1:18, 126–137
record retention [Standard V(C)], 1:18, 146–148
text of, 1:18
notification of, 1:114
practice problems, 1:175–192
and Professional Conduct Program, 1:9–10
professionalism [Standard I], 1:21–56
independence and objectivity [Standard I(B)], 1:16, 30–42
knowledge of the law [Standard I(A)], 1:16, 21–29
misconduct [Standard I(D)], 1:16, 53–56
misrepresentation [Standard I(C)], 1:16, 43–53
text of, 1:16
research reporting responsibilities in, 4:36, 37
responsibilities as a CFA Institute member or CFA candidate [Standard VII], 1:165–174
conduct as participants in CFA Institute programs [Standard VII(A)], 1:18, 19, 165–169
reference to CFA Institute, designation and Program [Standard VII(B)], 1:19, 170–174
text of, 1:18–19
solutions to problems, 1:193–204
and Standards of Practice Council, 1:10–11
in Standards of Practice Handbook, 1:3, 5–9
text of, 1:16–19
and values of CFA Institute, 1:15
standards of value (term), 4:560–562
Standing Interpretations Committee
Interpretation 31, 4:426–427
Starbucks Corporation
linear trend analysis for sales, 1:441–444
log-linear trend analysis for sales, 1:444–446
seasonality of sales, 1:475–477
Stark, Edvard (case study), 1:208–212
additional compensation arrangements [Standard IV(B)], 1:210–211
case facts, 1:208–209
diligence and reasonable basis [Standard V(A)], 1:211
disclosure of conflicts [Standard VII(A)], 1:211–212
fair dealing [Standard III(B)], 1:209–210
suitability [Standard III(C)], 1:210
start-up stage (private equity), 6:137
statement of cash flows (cash flow statements)
discrepancies of balance sheets and, 4:314
FCFF from, 4:293–295
modeling, 4:134
Nestle, 2:395–399
noncash charges on, 4:295–301
pro forma, 4:177–182
capital investment forecast, 4:178
depreciation forecast, 4:178
and forecasted balance sheet, 4:181–182
forecasted cash flow statement, 4:179–181
working capital forecast, 4:178–179
reclassifications on, 2:298
Statement of Financial Accounting Standards
Business Combinations (SFAS 141R), 4:578
Fair Value Measurements (SFAS 157), 4:30n.13, 559n.5, 561n.13

Cumulative_Ind_12 82

Index

June 14, 2018 9:39 PM
Suitability [Standard III(C)], 1,90–97
application of the standard, 1,94–97
in case studies, 1,210, 221–222,
227–228
and changes in investment objectives,
1,223–224
compliance procedures, 1,93–94
investment policy statements, 1,93
regular updates, 1,94
suitability test policies, 1,94
guidance, 1,90–93
addressing unsolicited trading
requests, 1,92–93
developing investment policies, 1,91
managing to indexes or mandates,
1,93
need for diversification, 1,92
understanding client’s risk profile, 1,91
updating investment policies, 1,92
text of, 1,17, 90
suitability test policies, 1,94
summaries
attributing, 1,47
research report, 436
Summers, Larry, 1,707n.16
sun sum of squared errors (SSE), 1,306
sum-of-the-parts valuation, 4,26–29
Sunbeam Corporation
cash flow quality, 2,338–339
earnings quality, 2,320–324
sunk costs, 1,715; 3,9, 57
supermajority voting provisions, 3,295
supernormal growth, 4,225
Super Selection Investment Advisors
(case study), 1,224–228
case facts, 1,224–225
diligence and reasonable basis
[Standard V(A)], 1,227
disclosure of conflicts [Standard
VI(A)], 1,226
loyalty, prudence, and care [Standard
III(A)], 1,227
priority of transactions [Standard
VI(B)], 1,228
responsibilities of supervisors
[Standard IV(C)], 1,225–226
suitability [Standard III(C)], 1,227–228
supervised learning
algorithms, 1,383–388
classification and regression trees,
1,384–385
neural networks, 1,386–387
penalized regression, 1,383–384
random forest classifiers, 1,383–386
defined, 1,245–246, 381
training in, 1,390–391
supervision
determination as part of, 1,119–120
inadequate, 1,124–125
of research activities, 1,122–123,
125–126
system for, 1,119
of trading activities, 1,123
supervisors. see Responsibilities of
Supervisors [Standard IV(C)]
suppliers
bargaining power of, 4,137–139, 170
in beer markets, 4,138, 139
in industry structure, 4,13
as stakeholders, 3,202–203
view of profitability by, 3,205
supply
credit spreads and, 5,242
in current account, 1,577
default-free yield curves and, 6,423
in due diligence for equity REITs, 6,91
of new space, 6,94–95
supply-side estimates of equity risk
premia, 4,69–71
support services, revenue from,
2,325–326
supra-national entities, 2,215
surplus at risk, 6,359
surpluses, 1,576–579, 2,183
Surveillance Commission for the
Financial Sector, 2,218
surveillance of markets, algorithmic,
6,543–544
Survey of Professional Forecasters (SPF)
bias in predictions by, 1,305
evaluations by, 1,273–274
inflation expectations from, 1,353
surveys, equity risk premium from,
4,71
survival, probability of, 5,279, 280
survivorship bias, 4,65
sustainability
of capital markets, 1,12–13
of earnings, 2,292–293
of income, 2,230
of operating income, 2,299
sustainability reports, 4,17
Sustainable Accounting Standards Board
(SASB), 4,17
sustainable growth rates, 4,238, 241–242
Sveriges Riksbank (Central Bank of
Sweden), 2,218
swap(s) (swap contracts), 5,343–361;
6,226–229
basis, 6,228
benchmarks for, 5,29
commodity, 6,226–229
credit default, 5,267–302
applications, 5,286–293
credit derivatives, 5,267–268
credit events, 5,272–273
defined, 5,268
features of, 5,270–272
index products, 5,274–275
markets for, 5,270, 276–277
pricing, 5,277–286
settlement protocols, 5,273–274
succession events, 5,273
types of, 5,269–270
valuation of, 5,284–285
currency, 5,349–356
about, 5,349–350
pricing, 5,350–354
strategies using, 5,450–451
valuation, 5,354–356
defined, 5,343
equity, 5,356–361
cash flows, 5,356–359
pricing, 5,359–360
strategies using, 5,452–453, 490
valuation, 5,359–361
excess return, 6,227
interest rate, 5,345–349
cash flows in, 5,345–346
currency swaps vs., 5,450
pricing, 5,346–348
strategies using, 5,448–449, 492–493
valuation, 5,348–349
par, 5,25
receive-fixed pay-floating, 5,344–345
receive-floating pay-fixed, 5,343–344
total return, 5,452n.9, 6,227–228
variance, 6,228
volatility, 6,228
swap contracts. see swap(s)
swap dealers, 6,226
swap markets
CDS, 5,270, 276–277
liquidity of, 5,25
swap rate(s) defined, 5,24, 49
overnight indexed, 5,32–33
Treasury rate vs., 5,31–32
US dollar, and credit spreads,
5,243–244
valuing bonds with, 5,25–26
swap rate curve (swap curve), 5,24–33
about, 5,24–25
defined, 5,25
determination of, 5,27–28
reasons for valuing bonds with, curve,
5,25–26
spread as price quotation convention,
5,30–33
and swap spread, 5,29–31
in valuation process, 5,26–27
SWAPS + notation, 5,29
swap spread, 5,29–31
swap tenor, 5,449
swaptions, 5,269n.4, 417–419
swap values, interest rate option values
and, 5,416, 417
SWB risk factor. see small minus big risk
factor
sweatshop labor, 3,211–212, 214
Sweden
active return and weights for equities,
6,500, 503, 504
average hours worked, 1,646
Basel Committee membership, 2,218
commercial property values, 6,456
currency crisis in, 1,596
gdp growth rate, 4,212
historical equity risk premium, 4,61, 63
index-linked bonds, 6,396
labor force participation rate, 1,643, 645
OECD Principles, 3,256n.18
publicly traded real estate equities,
6,81
real yields, 6,397, 400
share repurchases, 3,161
Swedish krona, 1,275–277, 605
sweet crude oil, 6,192
Swift (company), 6,195
Swiss Financial Market Supervisory
Authority FINMA, 2,218
Swiss franc
currency code, 6,160
and Mexican peso, 1,542
and required return on equity, 4,89
and US dollar, 1,434–435
Swiss National Bank, 2,218

Index

average returns, 6,646
Basel Committee membership, 2,218
commercial property values, 6,456
currency crisis in, 1,596
historical equity risk premium, 4,61, 63
index-linked bonds, 6,396
labor force participation rate, 1,643, 645
OECD Principles, 3,256n.18
publicly traded real estate equities,
6,81
real yields, 6,397, 400
share repurchases, 3,161
Swedish krona, 1,275–277, 605
sweet crude oil, 6,192
Swift (company), 6,195
Swiss Financial Market Supervisory
Authority FINMA, 2,218
Swiss franc
currency code, 6,160
and Mexican peso, 1,542
and required return on equity, 4,89
and US dollar, 1,434–435
Swiss National Bank, 2,218
Switzerland
active return and weights for equities, 6:499–504
Basel Committee membership, 2:218
commercial property values, 6:356
eq post equity risk premium, 6:445
Financial Stability Board, 2:219
GDP growth rate, 4:212
historical equity risk premium, 4:61–63
money supply growth and inflation, 1:264, 269, 294, 296
multinational operations in, 2:130
OECD Principles, 3:256n.18
publicly traded real estate equities, 6:81
Sydney, Australia, 1:542–543
Synchrony Bank, 5:250
Synchrony Credit Card Master Note
Trust $750,000,000 Series 2016-1 Asset Backed Notes, 5:249, 250
Synchrony Financial, 5:250
systematic account reviews, 149
Syngenta AG, 4:295–298
synthetic assets, 5:454–456
synthetic call options, 5:457
synthetic cash, 5:456
synthetic CDOs, 5:293
synthetic floating-rate bonds, 5:344–345
synthetic long positions, 5:455
synthetic put options, 5:456–457
synthetic risk-free rate, 5:456
synthetic short positions, 5:455–456
Sysco Company, 4:149
systematic account reviews, 1:86
systematic risk
in CAPM, 3:49
in Carhart four-factor model, 6:284
defined, 6:278
in multifactor models, 6:278–279
systemically important financial institutions (SIFIs), 2:239
systemic importance, of financial institutions, 2:214–215
systemic risk, 1:702, 709; 2:214
T
T+1 settlement, 1:541n.2
T+2 settlement, 1:541
table format of cash flow projections, 3:27–29
table of contents, research report, 4:36
tablet computer industry, 4:36
tactical asset allocation, 3:248
tag-along rights, for private equity funds, 6:156
tag clouds, 1:248
tag variables, 1:381
tail risk, 6:365
Taiwan, real GDP per capita, 1:621–623, 627
takeover(s), 3:280, 293–299
Engelhard Corporation, 3:298–299
post-offer defense mechanisms, 3:296–298
crown jewel defense, 3:297
greenmail, 3:296
just say no defense, 3:296
leveraged recapitalization, 3:297
litigation, 3:296
Pac-Man defense, 3:297
share repurchase, 3:297
white knight defense, 3:297–298
white squire defense, 3:298
pre-offer defense mechanisms, 3:293–296
fair price amendments, 3:295
golden parachutes, 3:296
poison pills, 3:294
poison puts, 3:294
restricted voting rights, 3:295
restrictive takeover laws, 3:294–295
staggered boards of directors, 3:295
supermajority voting provisions, 3:295
takeover premium, 3:310
Talisman Energy, Inc., 4:256–257
tangible book value per share, 4:418–419
target capital structure, 3:107–108
target company (target)
defined, 3:280
M&A analysis, 3:303–314
comparable company analysis, 3:309–312
comparable transaction analysis, 3:312–314
discounted cash flow analysis, 3:303–309
target fund, private equity, 6:154
target payout adjustment model, 3:116–157
target payout ratio, 3:156
target price, realization of, 5:461–462
target variables, 1:381
target weights, WACC, 4:91
TARP, see Troubled Asset Relief Program
task, in machine learning, 1:380
Tata Chemicals Ltd., 4:253
tax argument for company value and dividend policy, 1:322–137
taxation risk, with private equity investments, 6:157
taxes
after-tax cost of debt, 3:101–102
after-tax cost of equity, 3:102
in capital structure decisions, 3:98–103
defered, 4:298–299; 6:105
in developing vs. developed countries, 1:625
dividend imputation tax system, 3:151
and dividend policy, 3:149–152
and dividend reinvestment plans, 3:128
and dividend vs. share purchase decision, 3:170
double taxation system, 3:150–151
EBIT, 3:145
EBITDA, 3:145
and equity REITs, 6:84, 86–88, 96–97
government regulation, 1:721–723
as investor constraint, 6:263
and mergers and acquisitions, 3:286
modeling of, 4:127–131
for multinationals, 2:184–186
NOPLAT, 3:306–307
pre-tax interest coverage, 6:433
and private company valuation, 4:558, 560
on private real estate equity investments, 6:14
and REOCs, 6:86–88, 96–97
split-rate tax system, 3:151–152
and value of properties, 6:24
and weighted cost of capital, 4:90–92
tax-exempt municipal bonds (munis), 5:124
tax law, in IOSCO framework, 1:714
tax rates
cash, 4:128–131
effective, 4:128–131
statutory, 4:128–129
Taylor, John, 6:407
Taylor rule, 6:407–409
T-bills, see US Treasury bills
T-bonds, see US Treasury bonds
TC, see transfer coefficient
TD Ameritrade Holding Corp., 4:424
TD Bank Group, 4:417–418
technical indicators, 4:451
technological developments, 4:153–163
base case scenarios, 4:161, 162
bull and bear case scenarios, 4:161–163
impact of cannibalization, 4:159–163
potential for cannibalization, 4:153–159
technological knowledge, in production function, 1:639
technology
in classical model, 1:659
cross-border M&A for transfer of, 3:287
and economic growth, 1:635–637, 649–653
financial (see fintech)
in growth accounting equation, 1:637–638
and long-term forecasts, 4:167–168
in neoclassical model, 1:667, 671
and oil, 6:192
and total factor productivity, 1:633
transfer of, 1:676
technology bubble (2000), 6:159, 407, 434, 448, 449
technology companies, probabilistic risk assessment for, 1:532
TED spread, 5:32
TeliaSonera, 5:32
template errors, with capital projects, 3:56
Templeton World fund, 6:479, 482
temporal method
analytical issues with, 2:160–167
balance sheet exposures with, 2:163–166
and currency exchange rate movement, 2:172
and current rate method, 2:176–177
translating assets and liabilities with, 2:148–149
translating financial statements with, 2:148–149
10b-18 rule, 3:161, 178n.59
10-Q, Form, 4:16
tenant concentration, 6:91
environmental, social, and governance factors, 4:332–336
for free cash flow valuation, 4:330–331
three-step method for testing error autocorrelations, 1:450–452
Tibor, see Tokyo Interbank Offered Rate
TIC, see total invested capital
tick database, 6:542
Tier 1 Capital, 2:262–263
Tier 2 Capital, 2:244–245
timberland, 6:12
time decay, option theta and, 5:426
frame time for comparable-based valuation, 4:407
doing and dissemination, 1:84–85
and performance calculation, 1:98–99
time horizon(s) and effect of uncovered interest rate parity, 1:560, 561
for financial forecasting, 4:163
inflation and exchange rates for, 1:557
as investor constraint, 6:262–263
for securitized debt, 5:248
time horizon risk, 4:84; 6:301, 302
time of day, size of bid–offer spread and, 1:542–543
time points, in interest rate forward transactions, 5:325–326
time series autocorrelations of, 1:449–450
defined, 1:434
forecasts of, 1:472–474
ordering of, 1:446n.9
regression analysis of, 1:286, 335, 372–376
time-series analysis, 1:433–517
about, 1:434–436
autoregressive models, 1:447–460
comparing forecast model performance, 1:456–458
with conditional heteroskedasticity, 1:481–484
covariance-stationary series, 1:448–449
instability of regression coefficients, 1:458–460
mean reversion, 1:452–453
moving-average, 1:480–481
multiperiod forecasts and chain rule of forecasting, 1:453–456
serially correlated errors in, 1:449–452
challenges with, 1:436–437
forecasting with
moving-average models, 1:472–474
multiperiod forecasts and chain rule of forecasting, 1:453–456
steps, 1:489–490
uncertainty in, 1:488
moving-average models, 1:469–474
autoregressive, 1:480–481
forecasting time series with, 1:472–474
smoothing past values with, 1:470–472
with multiple regimes, 1:488
practice problems, 1:494–509
random walks, 1:461–464
regressions with multiple time series, 1:484–488
seasonality in, 1:474–480
solutions to problems, 1:510–517
trend models, 1:437–447
linear, 1:437–440
log-linear, 1:440–446
and testing for correlated errors, 1:446–447
uncertainty in forecasts from, 1:488
unit root test of nonstationarity, 1:465–469
time series approach to modeling revenue, 4:112
time-series dependence, 6:514
time step (binomial interest rate tree), 5:83
time to exercise, key rate durations and, 5:157
time to maturity, key rate durations and, 5:157
time value
in calendar spreads, 5:480
of money, 5:225, 26
in option premium, 5:460
of options, 5:379
Time Warner Corporation, 4:584
timing
of capital projects, 3:52
of default on bonds, 5:207
of private equity exit, 6:150–151
of recognition, 2:293–296
TIPS, see US Treasury Inflation–Protected Securities
TIs, see tenant improvements
Titanium Metals Corporation, 3:214
T-notes, see US Treasury notes
Tobin’s q, 1:335–337, 340; 4:506
tokenization, 1:256
Tokyo, Japan, 1:542, 543
Tokyo Commodity Exchange, 6:207
Tokyo Interbank Offered Rate (Tibor), 5:25
Tootsie Roll Industries, 3:131–132
top-down approach
fiscal forecasting, 4:22–23
investing, 4:22n.7
modeling operating costs, 4:114
modeling revenue, 4:111–112
working capital projections, 4:132–133
top-down clustering, 1:388
Toronto-Dominion Bank, 4:96, 417
tort law, 3:210
total capital ratio, 2:262–263
total debt/total capital ratio, 6:433
total factor productivity (TFP), 1:637–638
and steady state of growth equilibrium, 1:664
and technology, 1:650–652
and US economic growth, 1:670–671
total invested capital (TIC), 4:444
total periodic pension costs, 2:98
total return, 6:420–421
total return swaps, 5:452n.9; 6:227–228
total risk, 6:297
Total SA, 3:143; 4:75–76
Total Tier 1 Capital, 2:222, 243–244
Total Tier 2 Capital, 2:222, 244–245
trading, 207
trades, free, 296
tracking risk, 296–298
TP Analytics, 6:
total value added, 6:475–476
trade balance, 1:
trade allocation procedures, 1:
trade, free, 296
trade, fat finger, 253;
three-legged, 2:
Darwinian, 2:
cross-border, 2:
basis, 1:
index I-87
personal, 1:
proprietary trading procedures, 63
risk-arbitrage, 1:
spread, 6:
supervising trading activities, 1:
solicited requests for, 1:
wash, 6:
trading and credit portfolio VaR, 2:
trading volume, 1:
traditional term structure theories, 5:
trailing dividend yield, 4:
trailing earnings per share, 4:
trailing P/E, 4:
and business-cycle influence, 4:
calculating, 4:
and comparability with other
companies, 4:
defined, 4:
equity strategists’ use of, 6:
justified, 4:
with negative, zero, or low earnings, 4:
and nonrecurring items, 4:
trailing price to cash flow, 4:
training compliance, 1:
training sample, for machine learning, 1:
tranche CDS, 5:
transaction-based manipulation, 1:
transaction-based real estate indexes, 6:
transaction characteristics of M&As, 3:
form of acquisition, 3:
method of payment, 3:
net-set of management, 3:
transaction costs, 6:
transaction date, 4:
transaction exposure, 2:
transaction fees, 6:
transactions
across national borders, 2:
adding, to ledgers, 1:
allocation of, 1:
with associates, 2:
bid–offer spread and size of, 1:
foreign currency, 1:
analytical issues, 1:
disclosures of gains and losses, 1:
and foreign exchange risk, 1:
with intervening balance sheet dates, 1:
with settlement before balance sheet
date, 1:
related-party, 2:
TransCanada Corporation, 5:
transfer, in data science, 3:
transferability of shares, 3:
transfer coefficient (TC), 4:
and active return variance, 4:
defined, 4:
for fixed-income strategies, 6:
and full fundamental law of active
management, 6:
for global equity portfolio, 6:
and optimal active risk, 6:
transfer prices, 2:
transformation, of regression variables
first-differencing, 1:
and model specification, 1:
transformational technologies, 1:
transitional growth, in neoclassical
model, 1:
transition growth phase, 4:
transition matrices, 5:
translation of foreign currency financial
statements, 2:
Canadaco case study, 2:
companies with multiple methods,
2:
disclosure of, 2:
for Chevron Corporation, 2:
for Exxon Mobil Corporation, 2:
and net income, 2:
and Yahoo! Inc., 2:
foreign currency as functional
currency method, 2:
fiscal currency determination, 2:
in highly inflationary economies, 2:
and parent’s presentation currency as
functional currency method, 2:
for retained earnings, 2:
transparency, in corporate governance,
2:
transportation, commodity valuation
and, 6:
TransUnion, 5:
Travelers Companies, Inc., 2:
travel expenses, 3:
travel funding, 1:
TR/CCRB, see Thomson Reuters/
CoreCommodity CRR Index
Treasuries, see US Treasury securities
Treasury rate, 5:
Treasury scare of 2000, 6:
treasury shares (treasury stock), see US
Treasuries (US Treasuries)
TREND formula, 4:
trending, 6:
trend models
linear, 1:
log-linear, 1:
and testing for correlated errors, 1:
time-series analysis, 1:
trends
linear, 1:
payout policy, 3:
residuals from estimating, 1:
Treynor, Jack, 6:
triangular approach, for private equity
investments, 6:
triangular arbitrage, among currencies, 1:
trading, 207
trades, free, 296
tracking risk, 296–298
TP Analytics, 6:
total value added, 6:475–476
trade balance, 1:
trade allocation procedures, 1:
trade, free, 296
trade, fat finger, 253;
three-legged, 2:
Darwinian, 2:
cross-border, 2:
basis, 1:
index I-87
personal, 1:
proprietary trading procedures, 63
risk-arbitrage, 1:
spread, 6:
supervising trading activities, 1:
solicited requests for, 1:
wash, 6:
trading and credit portfolio VaR, 2:
trading volume, 1:
traditional term structure theories, 5:
trailing dividend yield, 4:
trailing earnings per share, 4:
trailing P/E, 4:
and business-cycle influence, 4:
calculating, 4:
and comparability with other
companies, 4:
defined, 4:
equity strategists’ use of, 6:
justified, 4:
with negative, zero, or low earnings, 4:
and nonrecurring items, 4:
trailing price to cash flow, 4:
training compliance, 1:
training sample, for machine learning, 1:
tranche CDS, 5:
transaction-based manipulation, 1:
transaction-based real estate indexes, 6:
transaction characteristics of M&As, 3:
form of acquisition, 3:
method of payment, 3:
net-set of management, 3:
transaction costs, 6:
transaction date, 4:
transaction exposure, 2:
transaction fees, 6:
transactions
across national borders, 2:
adding, to ledgers, 1:
allocation of, 1:
with associates, 2:
bid–offer spread and size of, 1:
foreign currency, 1:
analytical issues, 1:
disclosures of gains and losses, 1:
and foreign exchange risk, 1:
with intervening balance sheet dates, 1:
with settlement before balance sheet
date, 1:
related-party, 2:
TransCanada Corporation, 5:
transfer, in data science, 3:
transferability of shares, 3:
transfer coefficient (TC), 4:
and active return variance, 4:
defined, 4:
for fixed-income strategies, 6:
and full fundamental law of active
management, 6:
for global equity portfolio, 6:
and optimal active risk, 6:
transfer prices, 2:
transformation, of regression variables
first-differencing, 1:
and model specification, 1:
transformational technologies, 1:
transitional growth, in neoclassical
model, 1:
transition growth phase, 4:
transition matrices, 5:
translation of foreign currency financial
statements, 2:
Canadaco case study, 2:
companies with multiple methods,
2:
disclosure of, 2:
for Chevron Corporation, 2:
for Exxon Mobil Corporation, 2:
and net income, 2:
and Yahoo! Inc., 2:
foreign currency as functional
currency method, 2:
fiscal currency determination, 2:
in highly inflationary economies, 2:
and parent’s presentation currency as
functional currency method, 2:
for retained earnings, 2:
transparency, in corporate governance,
2:
transportation, commodity valuation
and, 6:
TransUnion, 5:
Travelers Companies, Inc., 2:
travel expenses, 3:
travel funding, 1:
TR/CCRB, see Thomson Reuters/
CoreCommodity CRR Index
Treasuries, see US Treasury securities
Treasury rate, 5:
Treasury scare of 2000, 6:
treasury shares (treasury stock), see US
Treasuries (US Treasuries)
TREND formula, 4:
trending, 6:
trend models
linear, 1:
log-linear, 1:
and testing for correlated errors, 1:
time-series analysis, 1:
trends
linear, 1:
payout policy, 3:
residuals from estimating, 1:
Treynor, Jack, 6:
triangular approach, for private equity
investments, 6:
triangular arbitrage, among currencies, 1:
unexected earnings, 4:451–453
unfair competition, regulation against, 1:717
UNFCCC. see United Nations Framework Convention on Climate Change
Uniform Standards of Professional Appraisal Practice (USPAP), 4:595
Unilever Group, 4:846
company costs, 4:151
ethics at, 3:220, 223
input and product prices for, 4:146–147
modeling of operating costs for, 4:122–126
Unilever N.V., 4:473, 486
Unilever PLC, 3:313, 4:473, 486
unintended costs, of regulation, 1:719
unintentional errors, correction of, 1:48
Union of South American Nations (UNASUR), 1:704
unions, 3:202, 203
unique circumstances, as investor constraint, 6:263–264
United Arab Emirates, 2:219; 6:83
United Kingdom
active return and weights for equities, 6:499–504
average hours worked, 1:646
Basil Committee membership, 2:218
foreign currency translation, 2:155–157
labor force participation rate, 1:643
natural resources, 1:641
OECD Principles, 3:256n.18
real GDP per capita, 1:621, 677
Turkish lira, 1:581–582; 2:155–157
Turnbull, Stuart, 5:216
turnover, inventory, 4:132
TVA. see Tennessee Valley Authority
TVPI, see total value to paid in
12-month moving average, 1:470n.32
20-F, Form, 4:16
two-fund separation, 6:479
two-period binomial model, 5:386–398
for American-style options, 5:390–398, 394–398
for European-style options, 5:387–391, 394–398
expectations approach, 5:389–390
no-arbitrage approach, 5:387–389
replaciting option payoffs in, 5:377
two-period default-free bonds, 6:389–390
two-stage models
dividend discount, 4:226–229
combing P/E model and, 4:228–229
future dividend growth pattern for, 4:209
valuing stock with, 4:226–228
free cash flow, 4:323–330
with declining growth rates, 4:325–330
with declining net income, 4:326–328
with declining sales growth, 4:328–330
with fixed growth rates, 4:324–325
TXU Corporation, 6:150
Tyco, 3:210, 213, 231, 232, 246; 5:216
Type I errors, 1:243, 356; 2:308
Type II errors, 2:308
U
UBS, 3:179
UER. see civilian unemployment rate
Ukraine, 1:594
umbrella partnership REITs (UPREITs), 6:84, 88
unassociated gas, 6:193
UNASUR. see Union of South American Nations
unbiased expectations theory, 5:33
unbiased measurement, 2:343
uncertainty about future cash flows, 6:381, 382
in forecasts from time-series analysis, 4:888
and predicting dependent variable with regression analysis, 1:340–341
and risk premiums, 6:387–389
unconditional heteroskedasticity, 1:351
uncovered interest rate parity and carry trades, 1:572
in exchange rate determination, 1:558–560
and international parity conditions, 1:570, 571
in prediction of spot rates, 1:560–564
underfunding, 6:387–389
and risk premiums, 6:387–389
arbitrageur strategy of purchasing, 5:312–315
cash flows for financed position in, 5:312–314, 319–320
cash flows related to carrying, 5:311–312
for forward rate agreement, 5:325
and objective for derivatives strategy, 5:483
options prices and volatility in, 5:485–486
underlying (underlying instrument) in binomial model, 5:379–380
in BSM model, 5:402, 406
for currency options, 5:410
for interest rate options, 5:399, 414, 416
in no-arbitrage approach to options valuation, 5:376
replicating call option with, 5:382–383
replicating put option with, 5:383–384
and value of call options, 5:380–381
without dividends, 5:393
underlying cash flows carry arbitrage model with, 5:318–321
carry arbitrage model without, 5:311–318
underlying common stock, convertible/straight bonds vs., 5:173–175
underlying earnings, 4:386
underlying real estate, valuation of stock REITs and, 6:104
underspending, on capital projects, 3:57
undervalued (term), 4:25, 89
underweight (term), 6:474
underwriting activities, 2:266
underwriting expense ratio, 2:269
unequal lives, mutually exclusive projects with, 3:38–40
unethical actions, reporting, 1:29
unethical behavior, causes of, 3:215–216
unexpected changes, in exchange rates, 1:557

Index
OECD Principles, 3:256n.18
population growth, 1:642
portfolio weights, 6:475
private real estate valuation, 6:56n.17, 57
publicly traded real estate equities, 6:81
R&D expenditures, 1:650
real equity returns, 6:439
real estate equities market, 6:82
real GDP per capita, 1:621, 677
real yields, 6:396–401
regulation of portfolio management, 6:263
reversion valuations, 6:37–39
robo-advisory services, 1:250
Royal & Sun Alliance Group, 1:43
royalty factors in determining shape of, 6:423–424
slopes, level, and curvature of, 6:416
spread of, 6:417–419
United Nations Framework Convention on Climate Change (UNFCCC), 3:260
United Parcel Service, 4:536
United States
active return and weights for equities, 6:500, 501, 503, 504
automotive industry, 4:17
average hours worked, 1:646
banking regulations in, 2:215
banking supervision, 1:723
Basel Committee membership, 2:218
beer market, 4:145, 146
benchmarks for bond valuation, 5:25
book value, 4:415
debts cycle and policy rates, 6:405, 4:406
callable bonds, 5:124
commercial property values, 6:456
commodity exchanges, 6:207
common law, 3:113
corporate default, loss, and recovery rates, 6:428–431
corporate governance evaluation, 3:235
credit default swaps, 5:270
credit spreads and business cycle, 6:431–432
diversified REITs, 6:94
dividends
cash dividends paid, 3:127
decline in, 3:179
dividend policy, 4:201–202
payouts from, 3:159, 178
earnings growth, 6:439–440, 442, 443
economic growth, 1:654
education spending, 1:624
effective tax rate for multinational companies, 2:184
equity investment styles, 6:448
equity premiums, 6:450–451
equity risk premium, 4:60
ESG risk exposures, 3:260, 261
event-specific disclosures of risk information, 2:358
exchange rates, 1:578–579
executive compensation, 3:243
exports and foreign direct investment in, 1:681
ex post equity risk premium, 6:445
FFM model for equities market, 4:80
financial statements of US subsidiaries of foreign companies, 2:145–144
firms with negative book value for equity, 1:528
GDP
bond spread, total returns and GDP growth, 6:420–421
and consumption, 6:441
GDP growth rate, 4:212
ICT capital and investment in GDP, 1:647, 648
real GDP, 1:524–525
real GDP per capita, 1:621–623, 676–678
GGM equity risk premium estimate, 4:68–69
government bond market, 5:25
government bond risk premiums, 6:422
growth accounting equation, 1:637–638
health care costs, 2:95–97
historical equity risk premium, 4:61–63
history of merger activity in, 3:281–282
impeachment of capital rule, 3:153
index-linked bonds, 6:396, 398
inflation
break-even inflation rates, 6:410–411
and Federal Reserve policy, 1:458, 459
and money supply growth, 1:264, 269, 294–296
and S&P 500 returns, 1:271–272
and T-bill rates, 6:404, 405
insurance companies in, 2:266
insurance company capitalization, 2:273
international trade, 2:130
investment management, 6:248
Kyoto Protocol, 3:260
labor and total factor productivity, 1:651–652
labor force participation rate, 1:643, 645
labor supply and economic growth, 1:641
leases, 6:20, 21
livestock inventory in, 6:201
moving average for retail sales, 1:471
and MSCI ACWI, 6:499
multiple defaults by companies, 5:278n.18
natural resources, 1:640
neoclassical model for, 1:670–671
net migration, 1:644
OECD Principles, 3:256n.18
online payment companies, 2:216
population growth, 1:642
pre-tax operating margin for building retailers in, 1:524
price-to-earnings ratio, 6:446–447
private equity investments, 6:137, 154
private real estate investments, 6:14, 57, 101
publicly traded real estate equities, 6:81, 101
quantitative easing, 1:588
R&D expenditures, 1:650
real cyclically adjusted P/E ratio, 6:447
real default-free interest rates, 6:393
real equity returns, 6:438, 439
real yields, 6:396, 397, 400–401
real yield curve
commodity and futures regulation, 6:208
cost–benefit analysis of, 1:719–720
disclosure regulations, 1:717n.19
government subsidies, 1:722–723
of portfolio management, 6:263
regulatory requirements, 4:16
regulatory response to global financial crisis, 1:707
self-regulating organizations, 1:703–704
REITs, 6:84, 109, 111
REOCs, 6:97
reporting requirements for insurance companies in, 2:264
restructuring, 5:273
returns by asset class, 6:13–14
reversion, 6:37n.11
robo-advisory services, 1:250
savings and loan crisis (1980s-1990s), 4:595
sector ROEs, 4:509–510
share repurchases, 3:161, 178; 4:218
taxation, 3:150–151
tax deductible interest, 4:290
taylor rule for policy rates, 6:407, 408
yield curve movements, 3:45, 46
US Circuit Court of Appeals, 1:719
US Consumer Price Index (CPI)
and inflation
corporate analysis, 4:145
correlated error testing, 1:447
Durbin–Watson statistic for, 1:447
in-sample forecast comparisons, 1:456–457
instability in time-series models, 1:459–460
linear trend models for, 1:438–440
multi-period forecast, 1:454–456
out-of-sample forecast comparisons, 1:457–458
testing for ARCH(1), 1:482–483
and REIT returns, 6:82
US Consumer Price Index for All Urban Consumers (CPI-U), 6:14
US Consumer Price Index for Energy (CPIENG), 1:317–319, 325
US Department of Justice, 3:213, 299, 300, 302

US dollar
BMW’s foreign currency exposure, 2:189, 190
CAD/USD currency pair, 1:541n.2, 543
capital flows, 1:580
correlation of exchange rate returns for, 1:275–277
currency code, 1:605
currency translation, 2:155–157
current account deficit, 1:578–579
demand for financial assets, 1:580
DEM/USD currency pair, 1:580–581
exchange rate with Swiss franc, 1:434–435
international risk premium estimation, 4:89
JPY/USD currency pair
bid–offer spread for, 1:542
equity market trends and exchange rates, 1:582
exchange rate as random walk, 1:462–464
forward points for, 1:552n.9
triangular arbitrage with, 1:544–545
real interest rate differentials and value of, 1:580–581
and Turkish lira, 1:581–582
USD/EUR currency pair
arbitrage constraints for exchange rate quotes, 1:544–545
exchange rate quotes for, 1:544, 542
liquidity in, 1:542
spot and forward rate quotes, 1:551–552
USD/GBP currency pair, 1:542, 545–546
US dollar swap rates, 5:243–244
US Equal Employment Opportunity Commission (EEOC), 4:17
US Federal Deposit Insurance Corporation (FDIC), 2:218, 220–222
US Federal Reserve. see Federal Reserve
US GAAP
on accounting for derivatives, 2:258
on asset classification, 2:245
available-for-sale investments, 4:517
on available-for-sale securities, 2:248
book value of equity, 4:504–505, 515
business combinations, 2:35, 36, 49–56
classification shifting, 2:339
compensation, 2:76, 103, 105, 106
depreciation of real investments, 6:105
equity investments, 2:224
extraordinary items, 2:307n.9
fair value, 2:229, 4:561, 595
goodwill impairment tests, 4:560
and IFRS, 2:55–56, 4:449–450
impairments, 2:47–48
income statements, 4:108
intangible assets, 4:556
intercorporate investments, 2:8–10
interest classification, 4:434
and dividends, 4:293–294
investment property, 6:99
investments
in associates, 2:23, 27, 31, 34
in financial assets, 2:10–12, 14–15, 17
joint ventures, 2:23
LIFO inventory accounting, 4:390
multinational operations, 2:130
accounting for dirty-surplus items, 2:183
accounting for foreign currency transactions, 2:133, 135
financial statements in highly inflationary economies, 2:154–155
foreign currency transactions, 2:142
preparation of foreign financial statements, 2:144, 172–174, 176–178
rules for translation of foreign currency financial statements, 2:153–154
NAV calculation for real assets, 6:102
non-controlling interests, 2:43
financial assets, 6:422
operating cash flow, 4:432
post-employment benefits
convergence with IFRS, 2:77
disclosure of benefits, 2:92, 94, 97–99
financial statement reporting of benefits, 2:81–86
measuring pension obligations, 2:79–80
R&D expenditures, 4:415, 528
reconciliation requirement of, 4:449–450
remeasurement gains and losses, 2:152
residual income, 4:505
share-based compensation, 4:299
US Internal Revenue Code, 2:296
US L&H sector, 2:277
US National Association of Insurance Commissioners (NAIC), 2:220, 264n.31, 273
US Securities and Exchange Commission (SEC)
accruals modeling, 2:314
agency problems and filings with, 3:207
allocation of regulatory responsibilities from, 1:703–704
Amendments to the Rules Governing the Investment Company Act of 1940, 3:236
on board chairmen, 2:327–238
classification shifting evidence, 2:312–313
corporate disclosure filings, 3:235
cost and credit rating agencies, 3:109
Diebold settlement with, 4:428
discounts for lack of control, 4:590
Division of Corporation Finance, 2:355
earnings quality case examples, 2:319–331
assessing quality of expense recognition, 2:330–331
assessing quality of revenues, 2:326–328
cost capitalization, 2:328–329
revenue recognition, 2:320–326
Sunbeam Corporation, 2:320–324
WorldCom Corp., 2:328–329
enforcement action for Digilog, Inc., 2:302
ESG risk filings, 3:261
formalized revenue recognition practices, 4:426–427
Groupon registration statement with, 4:428
and guideline transactions method, 4:584
overturning of rules by, 1:719
reconciliation with GAAP as required, 4:449, 450
Regulation FD, 4:16
Regulation National Market System, 1:720
Regulation Q, 1:720–721
required filings with, 4:16
robo-adviser regulation by, 1:250
Rule 10b–18, 3:161, 178n.59; 4:302n.8
Rule 144, 4:591
rulemaking process, 1:702n.2
sanctioning of Mitchell Hutchins Asset Management, 1:233–234
on trade allocation issues, 1:229–231
VaR acceptance by, 6:334
US Supreme Court, 3:281
US Treasury, 2:238
US Treasury bills (T-bills)
and bonds, 1:284
business cycles and rates for, 6:404–409
and commodity indexes, 6:221
and inflation
conditional heteroskedasticity of, 1:353, 355
Fisher effect, 1:373–376, 484
serial correlation of, 1:359
investment horizon of, 6:410
in quantitative easing, 5:36
returns of asset classes, 6:14
short-term nominal interest rates on, 6:403
and stocks, 1:279
and TED spread, 5:32
US Treasury bonds (T-bonds)
active management for portfolios of, 6:508–510
and Fed model, 4:407
GDP growth and yield spreads/total returns on, 6:420–421
rate distribution for, 1:520–521
REIT yields vs., 6:85
yield of S&P 500 Index and, 1:286
US Treasury curve
and break-even inflation rate, 6:413–415
and risk premium on US Treasuries, 6:421
slope, level, and curvature of, 6:416
spread of, 6:417–419
supply and demand factors in, 6:423
US Treasury Inflation-Protected Securities (TIPS), 6:396, 401
US Treasury notes (T-notes), 5:31–32
US Treasury securities (US Treasuries)
Asian central banks’ purchases of,
6:423
certainty of future cash flows from,
6:381
country premium, 4:90
credit spread for corporate bonds, 
6:427
government bonds in emerging 
markets vs., 6:433–434
in quantitative easing, 5:36
risk premium on, 6:421
share repurchases of, 3:161
spot and forward curves for, 5:13
stripping and reconstitution of, 5:79
yield curve factors, 5:47–49
United Technologies, 3:222
uniting of interests accounting method, 
2:37
unit roots
cointegrated, 1:485–488
defined, 1:465
Dickey–Fuller test, 1:465–469, 484, 486, 488
Engle–Granger test, 1:486
and Fisher effect, 1:484
modeling, 1:466–469
and predictability of stock market
returns, 1:485
and regressions with multiple time
series, 1:484–488
single vs. multiple, 1:486n.45
testing for, 1:465, 484
unit root test of nonstationarity, 
1:465–469
unit value, real estate, 6:10
universal banks, 2:216
Universal Standards of Professional 
Appraisal Practice (USPAP), 6:57
university endowments, 6:303
University of Pennsylvania, 3:263
unleveraged IRF, 6:64
unlimited funds, 3:101
unquoted investments, private equity, 
6:156
unrealized losses, gross, 2:248–249
unrealized proceeds, 6:160
unsolicited trading requests, 1:92–93
unstructured data, 1:242, 281–282
unsupervised learning
algorithms, 1:388–390
defined, 1:246, 381
unsystematic risk, 3:49
unusual charges, 4:132
updates, 1:94, 131–132
up factor, 5:380, 387
upfront payment (upfront premium) 
and credit quality, 5:271–272
determining, 5:281, 283–284
URPREITs, see umbrella partnership 
REITs
upside potential, of convertible bonds, 
5:172
upstream transactions, 2:31–33
upward only restrictions, 6:452
US Bancorp, 4:416
uses-of-free-cash-flow-basis, 4:308–310
USPAP, see Uniform Standards of 
Professional Appraisal Practice
US Style Indices Methodology (S&P), 
4:462
utilitarian approach to ethics, 3:217
utilities, as operating expenses, 6:42–43
utility providers, 4:167–168
V
vacant sites, highest and best use of, 
6:26–27
vacant space, real estate valuation of, 
6:43
Vadlamani, Srinivas, 2:335–337
Vale (company), 
6:216
validation sample, in machine learning, 
1:391
valuation, 4:6, 36, 556n.1
absolute models, 4:223–25
arbitrage-free (see arbitrage-free 
valuation) asset
economic factors in, 6:379–469
and equity, 4:24–25
expectations of future cash flows in, 
6:383
for financial assets, 5:76
present value model of, 6:380–382
for private companies, 4:562, 586–588
binomial method, 5:81–85
bond (see bond valuation) claims, 3:64–65
commodities, 6:191, 203–205
comparables-based enterprise value to EBITDA, 
4:444–446
for markets, 4:379–381
P/E, 4:398–410
price to book value, 4:423–424
price to cash flow, 4:436
price to dividends, 4:438–439
price to sales, 4:430–431
for private equity, 6:143–144, 158–159
for real estate, 6:25–26, 51–52
in relative valuation models, 4:25, 26
with terminal price multiples, 4:413
and corporate governance, 3:262–263
discounted cash flow method
of developing terminal value, 4:167
expectations approach vs., 5:384–385
perpetuity calculations in, 4:168
for private companies, 4:569–570, 575
for private equity, 6:138, 144
discounted dividend valuation
for private real estate investments,
6:33–45
for publicly traded real estate securities,
6:111–113
valuation inputs for, 4:182–183
discounted dividend (see discounted 
dividend valuation) equities/stock, 6:437–451
business cycles and, 6:452
earnings growth and economic cycles, 
6:439–444
for equities with bad consumption
hedging properties, 6:438–439
equity risk premiums in, 6:437–438
with H-model, 4:231–232
multiple valuation indicators in, 
4:459–460
for non-dividend paying stock,
4:229–230
pricing formula, 6:437
quantifying equity risk premiums, 
6:444–445
with spreadsheet modeling, 
4:237–238
with two-stage dividend discount 
model, 4:226–228
valuation multiples for, 6:445–447
equity, 4:5–49
about, 4:5–6
absolute valuation models, 4:23–25
accounting information for, 4:18–22
applications, 4:9–11
for asset-based valuation, 4:24–25
business context for, 4:12–22
and market expectations, 4:10–11
models for, 4:23–30
practice problems, 4:41–46
relative valuation models, 4:25–26
research reports, 4:33–37
with residual income, 4:495–496
solutions to problems, 4:47–49
sum-of-the-parts valuation, 4:26–29
types of value, 4:6–9
valuation process, 4:11–33
FCFE model, 4:24
FCFF model, 4:24
of financial assets, 5:76
first-in, first-out method, 2:152; 4:390, 419
forecasted fundamentals-based
enterprise value to EBITDA, 4:444
forward P/E, 4:395–398
justified P/E, 4:395–397
of markets, 4:381–382
price to book value, 4:422–423
price to cash flow, 4:435–436
price to dividends, 4:438
price to earnings, 4:395–398
price to sales, 4:429–430
forward commitments, 5:307–373
about, 5:307
arbitrage-free principles, 5:308–309
forward contracts, 5:309–343
futures contracts, 5:322–343
swap contracts, 5:343–361
forwards, 5:7
currency forwards, 5:341–342
equity forwards, 5:322–324
fixed-income forwards, 5:337–338
interest rate forwards, 5:331–333
long forward position, 5:317–318,
320–321
notation for pricing, 5:309–311
free cash flow (see free cash flow 
valuation)
futures
currency futures, 5:338
equity futures, 5:322
fixed-income futures, 5:337
interest rate futures, 5:324–325
notation for valuation, 5:309–311
valuation (Continued)

residual income (see residual income valuation)
share repurchases and cash dividends, 3:167–169
sum-of-the-parts, 4:26–29
swap contracts
currency swaps, 5:354–356
equity swaps, 5:359–361
interest rate swaps, 5:348–349
target company, 3:303–314
comparable company analysis,
3:309–312
comparable transaction analysis, 3:312–314
discharged cash flow analysis,
3:303–309
venture capital method, 6:166–177
basic method, 6:166–171
buyout vs., 6:144–145
determining investment amounts,
6:172–176
estimating terminal value for, 6:171
issues with valuation, 6:148–149
and risk, 6:171–172
Z-spread in, 5:30–31
valuation date, 4:584
valuation inputs, company model,
4:182–183
valuation multiples, for equities,
6:445–447
The Valuation of Customer-Related Assets (Appraisal Foundation), 4:596
Valuation of Intangible Assets (IVSC Guidance Note), 4:596
Valuation of Privately-Held Company Equity Securities Issued as Compensation (Stock Practice Aid), 4:573n.24, 596
value. see also specific types
appreciation of, 4:217–218
of employee compensation, 2:76
and nonoperating assets, 4:337
standards/definitions of, 4:560–562
types of, 4:6–9
value added (metric), 6:472–477. see also active returns
benchmarks for, 6:472–473
calculations of, 6:473–475
for country equity markets, 6:475
decomposition of, 6:475–477
defined, 6:472
expected, 6:486–487
realized, 6:497–499
total, 6:475–476
value additivity, 5:77
value at risk (VaR), 6:257, 319–338
advantages and limitations of,
6:333–336
estimating, 6:322–333
historical simulation method,
6:327–330
Monte Carlo simulation method,
6:330–333
parametric method, 6:324–327
extensions of, 6:336–338
formal definition, 6:319–321
market risk monitored with, 2:238,
260–262
origins, 6:319
and risk budgeting, 6:362
and sensitivity risk, 6:348–352
and sensitivity/scenario risk measures,
6:348–352
in simulations, 1:527
threshold for, 6:320–321
value chain members, opportunistic exploitation of, 3:213–214
value creation
and LBO model, 6:146–148
for private equity, 6:141–143
value in use, 6:24
Value Line, 4:73, 405, 409, 434n.47
value of growth (term), 4:220–222
value, 6:34n.16
values, CIA Institute, 1:15
value stocks, 6:284, 448–450
Vanguard, 2:522
Vanguard Windsor fund
expected value added, 6:486, 487
information ratio, 6:481, 482
Sharpe ratio, 6:479
VaR, see value at risk
variable bias, 1:365–366
variable costs, 4:114, 156–157
variable interest entities (VIEs), 2:36, 52, 240–241, 302
variable operating expenses, 6:42
variables, 1:286, 328–329. see also specific types
composite, 1:389
linear association of, 1:265–266
in machine learning, 1:381
nonlinear relations of, 1:270–271
probabilistic
checking for correlation between,
1:522
defining probability distributions for,
1:520–522
determining, 1:520
with unstable correlations, 1:529
tag/target, 1:381
transformation of, 1:364, 366–370
variance
in active returns, 6:498
analysis of, 1:305–308
in autoregressive model, 1:437
linear regression model, 1:305–308
of prediction error, 1:309
return, 6:257, 285, 498
and volatility estimation, 5:85
variance–covariance method of
VaR estimation, 6:324. see also parametric method of VaR
estimation
variance swap, 6:228
variety, of Big Data, 1:241, 242
VaR threshold, 6:320–321, 324
Vasicek model, 5:41–42
VBO. see vested benefit obligation
vega, 5:427–428, 430, 6:342
veil of ignorance, 3:218, 219
Veld, Chris, 6:214
velocity, of Big Data, 1:241, 242
Venezuela
economic growth, 1:626–628
exchange rate management in,
1:594–595
Index

inflation, 1:588; 2:155
natural resources, 1:639, 640
openness of economy, 1:680
real GDP per capita, 1:622, 677
Venture Capital and Private Equity Valuation Principles, 6:159
venture capital investors, 4:559
venture capital method of valuation, 6:166–177
basic method, 6:166–171
buyout vs., 6:144–145
determining investment amounts, 6:172–176
estimating terminal value for, 6:171
issues with valuation, 6:148–149
and risk, 6:171–172
venture capital transactions
buyout vs., 6:148–149
defined, 6:136
secondary, 6:150
stages of, 6:137
Verizon Communications, Inc., 4:401–404, 458, 459
Verizon Wireless, 3:133
Vermont, ESG risk exposures, 3:260
vertical mergers, 3:280–281, 283–284
vested benefit obligation (VBO), 2:79n.5
vesting, for stock options, 2:108
vesting date, 2:107
Villalet, Claude, 4:133n.4, 133n.5
VIEs, see variable interest entities
Vietnam
coffee harvesting, 6:202
exchange rate management, 1:594
natural resources, 1:641
real GDP per capita, 1:621, 677
Vinci SA, 4:231–232
vintage year, private equity fund, 6:154
violations of ethical standards
and changes in investment objectives, 1:233–234
detection of, 1:119–120
dissociating from, 1:27–28
lists of, 1:54
notification of known, 1:27
by others, participation or association with, 1:23
reporting, 1:27
sanctions, 1:15
supervisor’s response to, 1:121
and trade allocation, 1:229–231
visibility, 4:210
Viskanta, Tadas, 4:90n.53
VIX. see Chicago Board Options Volatility Index
Vodafone AirTouch, 6:54
Vodafone Group PLC, 3:133
volatility (σ)
asset price, 1:70–72; 6:393
and assumptions of APT, 6:279–280
in Black model, 5:412, 414
in BSM model, 5:402, 404, 407
changes in, 5:226–227
in construction of binomial interest rate trees, 5:91–92
with currency options, 5:410
of exchange rate movements, 1:562
of future earnings, expected,
3:148–149, 154
implied, 5:429–433, 486
about, 5:377
and BSM model, 5:429–430
and options prices, 5:486
in option trading, 5:431–433
variability in, 5:430
and volatility indexes, 5:430–431
of income from equity REITs, 6:85
interest rate
about, 5:132–134
and binomial interest rate trees, 5:83, 221
callable bonds with, 5:137–140, 142–145
callable bonds without, 5:129–132
estimating volatility with binomial interest rate trees, 5:85
and option-adjusted spread, 5:147–149
putable bonds with, 5:137–138, 140–145
putable bonds without, 5:130–131
in tests of bond analysis, 6:178
and value of bonds with embedded options, 5:132–134
and yield curve volatility, 5:50
and lack of marketability discounts, 4:591–592
measuring, 5:85
and objective strategies with options, 5:484
and options prices, 5:485–486
of real estate returns, 6:60–61
and real yields, 6:397
refining spreads based on, 5:478–479
and sensitivity risk measures, 6:349
and size of bid–offer spread, 1:543
and straddles, 5:481, 482
in swaption valuation, 5:417
term structure of, 5:430
and VaR limitations, 6:335
and vega, 5:427
yield curve, 5:50–51
volatility indexes, 5:430–431
volatility regimes, 6:335
volatility swaps, 6:228
volatility term (equilibrium model), 5:40, 41
Volcker, Paul, 6:419
Volkswagen AG, 4:452–453
volume
of Big Data, 1:241, 242
trading (see trading volume)
volume and price approach, 4:112
volume–weighted average price (VWAP) algorithms, 6:534
Volunteers, compromising of CFA Institute integrity, 1:169
Volvo Group
financial assets, 2:13–14
pension obligation estimates, 2:93, 94
voting, proxy, 1:76–78; 3:248
voting provisions, supermajority, 3:295
voting rights, 3:295
VWAP algorithms. see volume–weighted average price algorithms
W
WACC. see weighted average cost of capital
WAL. see weighted average life
Walgreens, 4:115–117
Wal-Mart, 3:143, 204; 4:145
warehouse properties, 6:11–12, 20
Washington State, ESG risk exposures, 3:260
wash trading, 6:544
Waste Management Utility PLC, 2:313; 5:167–172
waterfall, 6:155
Watson, J., 1:246
weak stationary (term), 1:448n.11
weather
and grains, 6:194
and livestock, 6:195
and soft commodities, 6:195–196
Weatherford International Ltd., 4:14
webpages, maintaining, 1:47
weighted average cost of capital
(WACC) and company valuation, 1:301–303
defined, 3:94
discounting free cash flows with, 3:307, 308
and present value of FCFF, 4:287
and required rate of return for private company, 4:571
as required return, 3:51
and returns, 4:90–92
return to invested capital and, 1:309–311
weighted average life (WAL), 5:37
weighted harmonic mean, 4:457–458
Weil, Jonathan, 2:358
welfare economics, fundamental theorem of, 1:705–706
Wells Fargo & Company, 4:416
Wendy's, 6:216
Wert, J., 6:57
Wert, V., 6:57
Western Digital Corporation, 4:435–436, 441–446
Western Europe, 1:624; 6:393. see also specific countries
Westport Innovations Inc., 1:299–301
West Texas Intermediate (WTI) crude oil, 6:198, 209
Weyerhaeuser, 4:25
Wharf Holdings, 3:143
whistleblowing, 1:108, 113
white box, 6:539
White-corrected standard errors, 1:354n.42
white knight defense, 3:297–298
white squire defense, 3:298
Whole Foods Market, 3:133
wholesale currency quotes, 1:544n.5
Williams, John Burr, 4:198, 209
Williams Amendment to the Securities Exchange Act (1934), 3:302–303
Wilson, Charles, 3:208
Windstream Corp., 4:402, 404, 458, 459
winner’s curse, 3:298, 318
winners minus losers (WML) risk factor, 6:284, 294–296
WM/Reuters FX rate, 6:544
won, Korean, 1:605
work, misrepresentation of, 1:46
working capital
and FCFF, 4:291
and free cash flow, 3:307; 4:299–301
on pro forma cash flow statements, 4:178–179
projections of, 4:132–133
working capital accounts, 2:386
working capital ratios, 2:386
working conditions, substandard, 3:214
World Bank, 2:215, 295
WorldCom Corp., 5:216
accounting scandal, 3:210
earnings quality, 2:328–329; 6:444
lack of transparency at, 3:246
net income and operating cash flow, 2:317–318
WPP Group PLC, 4:385
W.R. Berkley Corp., 3:386
writing, after exam period, 1:168
writing options, 5:384
written material, brought into exam room, 1:167
WTI crude oil. see West Texas Intermediate (WTI) crude oil
X
XMI Corporation, 4:41–42, 48
Y
Yahoo! Finance, 4:400
Yang, Y., 4:494n.57
Yardeni model, 4:408
Yasuda, Ayako, 6:145n.a
years purchase, 6:30n.6
yen, Japanese
correlation of exchange rate returns for, 1:275–277
correlation of returns on Canadian dollar and, 1:283–284
currency code, 1:605
and current account surplus, 1:579
exchange rate with US dollar as random walk, 1:462–464
JPY/USD currency pair
bid–offer spread for, 4:542
equity market trends and exchange rates, 1:582
exchange rate as random walk, 1:462–464
forward points for, 1:552n.9
triangular arbitrage with, 1:544–545
and monetary policy, 1:588
yen carry trades, 1:579–580
yield(s)
all risks, 6:30–31, 37
in BYPRP method, 4:88–89
cash flow, 4:392
convenience, 6:216
dividend
calculation of, 4:436–439
and comparables, 4:439
continuous, 5:321
continuously compounded, 5:408
and forecasted fundamentals, 4:438–439
forward, 4:218
in fundamental factor models, 6:289–290
and price-to-dividends, 4:392
and stock splits, 3:132
earnings, 4:391, 392
effective, 6:41
of equity REITs vs. REOCs, 6:87
equivalent, 6:40–41
government bond, 6:413–415
real, 6:396–401
regulatory factors and, 6:423–424
of US Treasury bonds and S&P 500
Index, 1:286
of zero-coupon bonds, 5:206
yield capitalization method of real estate valuation, 6:33n.9
yield curve. see also spot curve (spot yield curve)
and arbitrage-free valuation, 5:76
bonds’ exposure to movement in, 5:45–47
and business cycles, 6:413–425
and callable bonds, 5:134–136
default-free and break-even inflation rates, 6:413–415
and business cycles, 6:413–425
and interest rates, 6:419–420
investor expectations and slope of, 6:417
in Japan, 6:424–425
level, slope, and curvature of, 6:415–417
and risk premium for default-free bonds, 6:420–423
spread of, 6:417–419
supply and demand factors influencing, 6:423
forward curve and movement in, 5:19–20
inflation and slope of, 5:15–16
maturity structure of volatilities in, 5:50–51
par, spot, and forward rates from, 5:128–129
and putable bonds, 5:136–137
“riding” or “rolling down,” 5:22–24
for risky bonds, 5:145–146
in segmented markets theory, 5:35
shape of, 5:87–50
yield curve factor models, 5:45–54
bonds’ exposure to yield curve movement, 5:45–47
defined, 5:47
managing yield curve risks, 5:51–53
maturity structure of yield curve volatilities, 5:50–51
shape of yield curve, 5:47–50
yield curve risks, 5:51–53
yield duration, 5:151
yield rate, 6:33n.9
yield spread, nominal, 1:582
yield to maturity (YTM)
in BYPRP method, 4:88
of corporate bonds, 5:224
and expected/realized return on bonds, 5:17–19
and long-term government bonds, 4:65
and par curve, 5:14
and spot rates, 5:16–19
YPF Sociedad Anonima, 4:321
YTM. see yield to maturity
yuan, Chinese, 1:579; 2:189, 190
Z
zero-coupon bonds (zeros)
break-even inflation rates for, 6:410
calculating forward rates on, 5:9–10
credit valuation adjustment for, 5:204–208
current forward curve and spot rates for, 5:21–22
negative key rate durations for, 5:157
pathwise valuation of, 5:98
and spot curve, 5:7
swap curve in valuation of, 5:26–27
viewing securities as, 5:79
zero-coupon yield curve, 5:15
zero earnings, trailing P/E with, 4:390
Zeta (Z-score) analysis, 1:377
Z-score, Altman bankruptcy prediction model, 2:331–332
Z-spread (zero spread), 5:30–31, 146