Index

A	and transactions with associates/joint	as component of earnings, 2:313–314
AAR. see average accounting rate of	ventures, 2: 31–34	discretionary vs. non-discretionary,
return	pooling of interests method, 2: 37,	2: 314
abandonment option	42n.29	earnings quality and measures of,
for capital projects, 3:54	and residual income model, 4:516–529	2: 313–318
defined, 3: 52	accounting for intangible assets,	in long-term equity investment case
Abbott Laboratories, 4:168	4: 526–528	study, 2: 395–396
Abenomics, 1:588	accounting for nonrecurring items,	accruals ratios, Nestlé, 2: 396
AB InBev. see Anheuser-Busch InBev	4: 528–529	accrued interest, for fixed-income
abnormal earnings, 4:496	aggressive accounting practices,	forwards and futures, 5:333, 334
abnormal returns, 1:347–348; 4:7	4:529	accumulated benefit obligation (ABO),
ABO. see accumulated benefit	balance sheet adjustments for fair	2: 79n.5 accumulated other comprehensive
obligation ABS. see asset-backed securities	value, 4: 525 clean surplus violations, 4: 517–525	
absolute convergence, 1:674	uniting of interests, 2:37	income (AOCI), 4: 521 acquiring company (acquirer), 3: 280
absolute risk aversion, 6: 388	Accounting Quality Model, 2:314	acquisition(s). see also mergers and
absolute risk aversion, 6. 568 absolute valuation models, 4: 23–25	accounting risk, 3:262	acquisitions
absolute variation models, 4,23–23 absolute version of PPP, 1:565	accounting risk, 3:202 accounting scandals, 3:209–210	bargain, 2: 40
academic designations, order of, 1: 174	accounting standards, international	as business combination, 2: 36
accelerated depreciation, capital	differences in, 4: 449–450. see also	business valuations before, 4: 559
projects, 3:31–34	specific standards	and convertible bonds, 5: 169
acceleration provisions, sinking fund	Accounting Standards Codification	defined, 3: 280; 4: 9
bond, 5:125–126	(ASC)	financial report quality issues in,
access to capital, 6: 104	Business Combinations (ASC 805),	2:300–301
access to properties, 6: 86	2: 10; 4: 561n.11, 578, 584	form of, 3: 288–289
account information, regular statements	Consolidation (ASC 810), 2:10,	short-term stock return performance
of, 1: 77	43n.30, 52	in, 1: 347–348
accounting	Fair Value Measurements (ASC 820),	acquisition capital (private equity class),
book value, 6: 353n.19	4:559n.5, 561n.12–13, 579	6: 137
for capital project cash flows, 3:56	Financial Instruments (ASC 825),	acquisition method for business
clean surplus, 4: 206n.12, 493n.3	2: 20	combinations, 2:38-42
and book value/future earnings,	Goodwill and Other Intangible Assets	acquisition price less than fair value,
4: 516	(ASC 350), 4: 559n.5–6	2: 40
and net income comparisons, 2:183	Investments–Debt and Equity	assets and liabilities in, 2:38
and residual income model, 4: 504	Securities (ASC 320), 2:10, 22n.12	contingent liabilities in, 2:38
violations of, 4:517–525	Investments–Equity Method and Joint	financial assets and liabilities in,
dirty-surplus, 2:183	Ventures (ASC 323), 2:10	2:39
fair value, 4: 419–422; 6: 353	Share-Based Payment (ASC 718),	goodwill in, 2:39
gain-on-sale, 2: 358	4: 560n.7	indemnification assets in, 2: 38–39
inventory, 4: 390, 419, 525	accounting standard-setting bodies,	post-combination balance sheet for,
market-based, 5:317	regulatory recommendations of,	2:40–42
mark-to-market, 6: 353n.19 (see also	1:703	acquisition price, fair value and, 2:40
fair value accounting)	accounting systems, corporate	ACRA. see Accounting and Corporate
Accounting and Corporate Regulatory	investments in, 2: 9 account reviews	Regulatory Authority
Authority (ACRA), 1:704 accounting choices, 2:293–294	firm policies on, 1: 77	Actavis Equity S.a r.l., 2: 26 actions
accounting estimates, 4:387n.12	regular, 1: 94	investment (see also Investment
accounting income, 3:59–61	systematic, 1: 86	Analysis, Recommendations, and
accounting information, for equity	accounts	Actions [Standard of Professional
valuation, 4:18–22	with beneficial ownership, 1: 158, 159	Conduct V])
accounting methods	family, 1: 80, 160–161	fair dealing in, 1: 83–84
for cash flow, 4: 433	in performance calculations, 1: 100	firm policies on, 1: 77
equity method, 2: 24–35	working capital, 2: 386	impact of, 1: 12–13
at Deutsche Bank, 2: 25–26	accounts receivable, earnings quality	personal, 1:55
example, 2: 24–25	and, 2: 322, 327	unethical, 1: 29
fair value option, 2: 30	accrual periods	activation function (neural network),
and goodwill, 2:29–30	for interest rate options, 5: 414, 415	1:386
impairment, 2:31	for Libor spot market, 5: 325	active factor risk, 6: 298
investment costs in excess of book	for swaps, 5: 345	active investment strategy, 6: 253
value, 2: 27–28	for swaptions, 5: 418	active managers
issues for analysts with, 2:34-35	accruals	active risk and guidelines for, 6: 297
and sale of inventory, 2: 32–34	in Beneish model, 2:307	objectives of, 6: 294



I-2 Index

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 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 and 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:**119–121 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 R^2 , 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

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 VI(A)], 1:215-216 independence and objectivity [Ŝtandard 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; 4:557n.2 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, 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:**533–551 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

Cumulative_Ind_L2 2 June 14, 2018 9:39 PM

development strategies, 1:680, 681

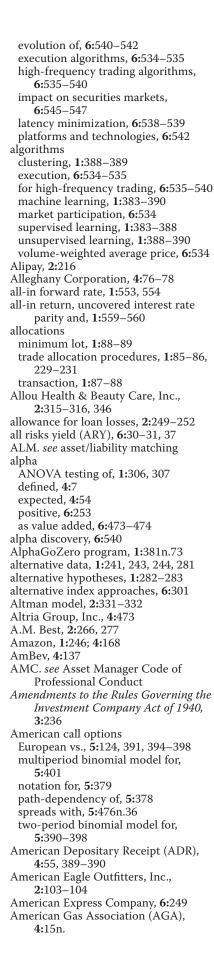
real GDP growth and real GDP per

capita, **1:**622, 623

soft crops, 6:195







American Institute of Certified Public Accountants (AICPA), 4:18 IGBVT, 4:560n.9 IPRD Practice Aid, 4:574n.25, 578, 595-596 standards required by, 4:595-596 Stock Practice Aid, 4:573n.24, 596 American Petroleum Institute (API), 4:15n. American Society of Appraisers (ASA), 4:560n.9 American Stock Exchange, 1:351 America Online, 4:584 AmeriServe Food Distribution Inc., 2:312 amortization of excess purchase price, 2:28-30 on pro forma cash flow statements, 4:178 of segments, 2:391 Amylin Pharmaceuticals, 4:113 analysis of variance (ANOVA) for linear regression with one variable, 1:305-308 for multiple linear regression, 1:331, 341 - 343analyst adjustments for comparability, 4:390 to funds from operations, 6:105-108 and net asset value per share, **6:**99-101 analysts buy-side, 4:31 CFO adjustments by, 4:314–315 commodity market, 6:207 communication with, 4:10 issues with intercorporate investment in associates, 2:34-35 nonpublic information from, 1:65–66 probit models for coverage, 1:377-378 roles and responsibilities of, 4:31–33 sell-side, **4:**31–33; **6:**250 trailing P/E adjustments by, 4:386-390 use of regression analysis, 1:328 analytical method of VaR estimation, **6:**324. see also parametric method of VaR estimation Anheuser-Busch Cos., 4:391 Anheuser-Busch InBev (AB InBev), **4:**137–140, 148, 460 ANNs. see artificial neural networks annual compounding, currency forwards with, 5:340, 341 annual reports, 3:235 annuities discount factor for, 5:418 equivalent annual annuity approach, present value of, 5:417-418 risk measures and, 6:360 ANOVA. see analysis of variance Ansell Limited, 4:253 anticompetitive behavior, 3:213 antitrust regulations, 1:716; 3:210, 299-302 AOCI. see accumulated other comprehensive income AOL Time Warner, 4:96, 101

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, 4:556n.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 APT. see arbitrage pricing theory APV. see adjusted present value AQI. see asset quality index Aqua America Inc., 4:216 AR(1). see first-order autoregression AR(2). see second-order autoregression AR(p). see pth-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

June 14, 2018 9:39 PM

API. see American Petroleum Institute



I-4 Index

arbitrage-free valuation, 5:75-117 about, **5:**75–76 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 construction of rate trees, 5:87-94 determining bond's value at a node, 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 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 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 risky 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; **6:**279-285 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 arbitrageursand commodity markets, 6:203-204, 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 pth-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, 6:28n.4 arithmetic mean, 4:60, 63-64, 458-459 ARMA models. see autoregressive moving-average models of timeseries analysis AR models. see autoregressive models for time-series analysis Arthur Andersen, 2:328 Articles of Incorporation, 1:23 artificial intelligence (AI) as analytical tool, 1:244-245 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,

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 Asian financial crisis (1997-1998), 1:594; Asian Infrastructure Investment Bank, ask price, in FX market, 1:541 ASM International, 4:449-450 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 beta, 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

fair value through profit or loss,

2:20-22

classification and measurement of,

Cumulative_Ind_L2 4 June 14, 2018 9:39 PM

real GDP growth and real GDP per

capita, 1:621, 623





disclosure, 2:34 equity method of accounting for, 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, 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, 1:290, 349, 481 in linear regression model, 1:289-291, 334-339 in long-term forecasting, 4:168-169 normality, 1:291n.25 for real estate valuation, 6:41-43 in simulations, 1:525 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 *n*-period moving average for, **1:**470 asymmetric information, 3:105, 207 - 208at 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, 6:499-504 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, 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, 3:256n.18 publicly traded real estate equities, R&D expenditures, 1:650 real GDP per capita, 1:621, 622, 677, 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, 4:61, 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









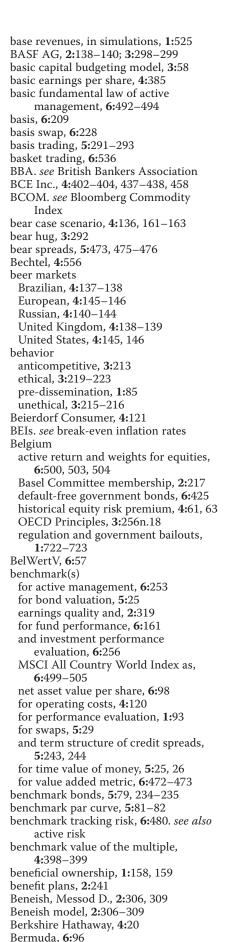
I-6 Index

autoregressive (AR) models for time-	in current account, 1:576-579	Bank of Canada, 2:218; 4:212
series analysis, 1:447–460	debt sustainability channel,	Bank of England, 2:218
challenges with, 1:436–437	1:578–579 flow supply/demand channel, 1:577	Bank of France, 2: 218 Bank of Italy, 2: 218
comparing forecast model performance, 1:456–458	portfolio balance channel, 1: 577–578	Bank of Italy, 2: 218 Bank of Japan, 2: 218; 6: 425
with conditional heteroskedasticity,	balance sheet modeling, 4:132–134	Bank of Korea, 2: 218
1: 481–484	balance sheet quality, 2:342-346	Bank of Mexico, 2:218
covariance-stationary series, 1:448–449	clear presentation, 2:346	Bank of Spain, 2:218
instability of regression coefficients,	completeness, 2:343	Bank Recovery and Resolution Directive
1: 458–460 mean reversion, 1: 452–453	Sealed Air Corporation, 2: 344–346 unbiased measurement, 2: 343	(BRRD), 5: 251 bank run, 2: 214–215
moving-average, 1: 480–481	balance sheets	bankruptcy
moving-average models vs., 1: 469,	adjustments for fair value on, 4: 525	business valuation in, 4: 559
472-474	assessing quality of expense	and costs of financial distress, 3:103,
multiperiod forecasts and chain rule of	recognition with, 2: 329	104
forecasting, 1:453–456	Capitol Shopping Center REIT Inc. case study, 6: 116	as credit event, 5: 272 laws regarding, 1: 714
seasonal lags in, 1: 474–480 serially correlated errors in, 1: 449–452	common-size, 2: 329	bankruptcy prediction models,
autoregressive moving-average (ARMA)	consolidated, 2: 48–50, 225, 300–301	2: 331–332
models of time-series analysis,	of DB pension plans, 2:81-82	Altman model, 2: 331–332
1:480-481	and due diligence for equity REITs,	developments in, 2:332
availability	6: 91	banks. see also specific banks
debt, 4: 571 of transactions, 4: 584	exposures on, 2: 147–148, 163–166 foreign currency transactions on,	central business cycle and policy rates,
available-for-sale assets, 2: 16–17	2: 133–135, 172–173	6: 405–406
available-for-sale investments	investment property on, 6:99	discount borrowing windows of,
impairments for, 2:16–17	misstatement of items on, 2:299	1: 723–724
intercorporate investments in, 2:12–14	modifications to, 2: 378–379	estimates of potential GDP by, 1: 630,
reclassification of, 2: 14–15 unrealized changes in market value for,	of Nestlé, 2: 376–379, 395–396 post-combination, 2: 40–42	631
4:517	pro forma, 4: 181–182	in exchange rate management, 1: 595 purchase of US Treasuries by Asian
available-for-sale (AFS) securities,	quality of earnings indicators from,	banks, 6: 423
2: 247–249	4:19	and slope, level, and curvature of
available stable funding (ASF), 2: 232–233	reclassifications on, 2:296–298	yield curve, 6: 417
average accounting rate of return (AAR),	and statements of cash flows, 4:314	commercial, 2: 215–216
3: 15–16 average assets, 2: 391	balloon payments, for real estate, 6: 62 Baltika, 4: 140–144	cooperative, 2: 216 corporate culture of, 2: 239–240
average cost of inventory, 2: 152	bank analyses, 2: 220–264	defined, 2: 220
average hours worked, economic growth	analytical considerations not addressed	deposits as liabilities of, 2: 214–215
and, 1: 646	by CAMELS, 2: 238–242	government ownership of, 2:239
average return on equity, 4:388	banking-specific, 2:238–240	government support of, 2:238–239
Aven Broducts 1:500, 513, 4:120, 121	relevant for any company, 2:240–242	market risk management by, 6: 354
Avon Products, 1: 500, 513; 4: 120, 121 Axis Manufacturing Company, Inc.,	CAMELS approach to, 2: 220–238 asset quality, 2: 223–228, 245–252	missions of, 2: 239 mortgage, 2: 216
4: 493–495	capital adequacy, 2: 220–223,	mutual, 2: 216
	242-245	promotion of economic growth, 1:623
B	earnings, 2: 228–232, 253–258	return requirement and risk tolerance
Bachelier, Louis, 5:402	illustration of, 2:242–264	for, 6: 261
packwardation defined, 6: 209	liquidity position, 2: 232–236, 259–260	risk budgeting by, 6: 362–363 supervision of, 1: 723
and Insurance Theory, 6: 213–214	management capabilities, 2: 228,	trust, 2: 216
and roll return, 6: 220–225	252–253	Barclays PLC, 3:179; 4:419-422
oackward induction methodology,	sensitivity to market risk, 2:236-238,	bargain acquisition, 2: 40
5: 85–96	260–263	bargaining power, 4: 137–139, 170, 171
for bonds at nodes of binomial trees, 5:85–87	Bank for International Settlements (BIS), 2:217; 5:25, 277	BARRA models, 6: 293 BARRA US-E2 model, 6: 291
in construction of binomial interest	Bank Indonesia, 2: 218	BARRA US-E2 model, 6: 299
rate trees, 5: 87–94	Banking and Financial Institutions	base case scenarios
for option-free bonds, 5:94-96	Supervisory Agency, 2:219	defined, 4:135
for risky bonds, 5: 222, 228	banking industry, regulation in, 1:722	for technological developments, 4: 161,
packward integration, 3:280–281	Banking Regulation and Supervision	162
oackwardness effect, 1: 679 BaFin. <i>see</i> Federal Financial Supervisor	Authority, 2: 218 banking sector	base currency in covered interest rate parity, 1: 550
Authority	credit spreads in, 6: 432	in exchange rate quotes, 1: 541
Baker Hughes Inc., 4: 14	leverage in, 3: 113–115	Basel Committee on Banking
palance of payments flows	regulation in, 1: 714	Supervision, 1: 707, 722; 2: 217–220
capital flows, 1: 579–585	banking services, 2:215–216	Basel I, 2: 219
and equity market trends, 1:582–585	Bank of America Corporation, 3:174;	Basel II, 2: 219
and real interest rate differentials,	4:383. see also BofA Merrill Lynch Institutional Factor Survey	Basel III, 2:219, 222, 232, 242, 259 base metals see industrial metals

Cumulative_Ind_L2 6 June 14, 2018 9:39 PM







Bermudan-style bonds callable, 5:124, 140 putable, 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, 4:77-79 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 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 evaluation, M&A, 3:314-318 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, 323 - 324binary 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

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 arbitragefree 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 multiperiod 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 (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

construction, 5:87-94



I-8 Index

Blackstone Group, 6:136, 141 blockage factors, 4:30 "block and arrow" diagrams, 5:450 blockchain distributed ledgers, 1:254-255 blogs, confidential firm information on, 1:115 Bloomberg Barclays Capital Aggregate Bond Index, 6:82 Bloomberg Barclays Capital Government Bond, **6:**14 Bloomberg Barclays Global Aggregate Bond Index, 6:472 Bloomberg Barclays US Aggregate Index, 6:476, 478 Bloomberg Commodity Index (BCOM), **6:**230–233 Bloomberg LP, 1:724; 4:73, 236-238; **5:**242, 243 Blume adjustment, 4:73 BM&FBÓVESPA, **6:**207, 542 BMW AG, 2:143-144, 189-190 BNIC. see Bureau National Interprofessionnel du Cognac board of directors, 3:222, 235-248 agenda of, 3:252 audit committees, 3:241-242, 251-253 compensation committee, 3:243-245, compensation for, 3:253 composition and independence, **3:**236–237 conflicts of interest in, 3:252-253 election of directors, 3:239 functions of, 3:249 independent chairman of, 3:237-238 legal and expert counsel, 3:245 nominating committee of, 3:242-243, public responsibilities committee of, qualifications of directors, 3:238-239, 249 - 250responsibilities of, 3:259 responsiveness to shareholder proxy votes, **3:**248 role of, 3:249 self-assessment/self-evaluation by, **3:**240, 252 sessions of, 3:241 size of, 3:251 staggered, 3:295 Board of Governors of the Federal Reserve System, 2:218; 3:110n.16 **Boeing Company** calculating rate of return for, 4:96, 101 ethics at, 3:214 P/B for, 4:537, 549 pursuit of profit at, 3:205-206 regression of returns from, 1:405-406 BofA Merrill Lynch Institutional Factor Survey, 4:29, 207, 383, 431, 451, 460 bond components of valuation models Black model, 5:412 BSM model, 5:405, 407-408, 411 swaption valuation model, 5:418 bond futures. see interest rate futures bond indenture, 4:24 bonding costs, 3:104

bond market, 5:25-26, 291-292 bond portfolios (fixed-income portfolios) active management of, 5:20-24 fundamental law of active management for, **6:**506–512 independence of investment decisions with, **6:**513–514 interest rate swaps in management of, 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, 5:333 returns on real estate vs. bonds, 6:17-18 realized and expected returns, stock vs. bonds, 1:279; 5:173-175; **6:**17-18 T-bills vs. bonds, 1:284 risk measurements for, 6:353 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 and valuation of default-/option-free bonds, **5:**128–129 and yield curve, 5:134-136 at zero interest rate volatility, 5:129-132 capped floating-rate bonds, 5:161-163 convertible bonds, 5:166-178 analysis, 5:169-172 features, 5:167-169 and risk-return of straight bonds/ underlying stock, **5:**173–175 valuation, 5:172-173, 176-178 embedded option types, 5:123-127 call options, **5:**123–124 complex options, 5:124-127

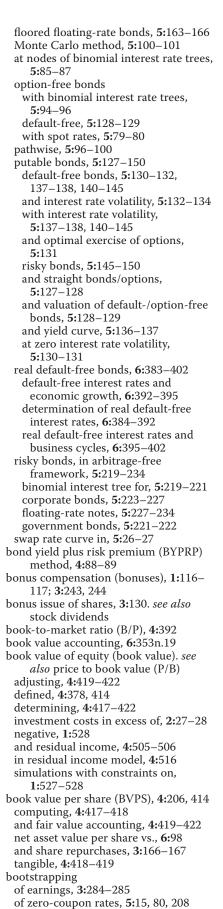
put options, 5:124 simple options, 5:123–124 floored floating-rate bonds, 5:163-166 interest rate risk, 5:150-161 duration, 5:151-158 effective convexity, 5:158-161 practice problems, 5:182–192 putable bonds, 5:127-150 default-free bonds, 5:130-132, 137-138, 140-145 with interest rate volatility, **5:**137-138, 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, 5:136-137 at zero interest rate volatility, 5:130-131 scenario analysis, 5:149-150 solutions to problems, 5:193-200 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:**134–136 at zero interest rate volatility, **5:**129–132 capped floating-rate bonds, 5:161-163, 164 - 166commodity 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

Cumulative_Ind_L2 8 June 14, 2018 9:39 PM

extension options, 5:124



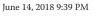




Borden, 2:312 borrowed funds, share repurchase with, 3:165-166 borrowing, as arbitrageur strategy, **5:**312–315, 329, 335 Bosch, 4:556 Boston Beer Co., 4:391 Boston Scientific Corporation, 3:278-279 Botswana health care, 1:625 natural resources, 1:640 real GDP per capita, 1:622, 677 bottom-up approach 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 breadth 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 and default-free yield curves, **6:**413–415 and government bond yields, **6:**413–415

breakeven 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, 4:400 BrisConnections Investment Trust, 2:26 British Airways, 4:251 British American Tobacco, 4:473 British Bankers Association (BBA), 5:324n.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, 6:97 Brother Industries, Ltd., 4:253-254 Brownian motion, geometric, 5:377, 402-403 BRRD. see Bank Recovery and Resolution Directive BSE Ltd., 1:473 BSM model. see Black-Scholes-Merton option valuation model BT Group, 4:437-438 buckets, **6:**349–350 budget deficits, potential GDP and, 1:631 budgeting capital (see capital budgeting) risk, **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

Booz Allen Hamilton, 3:128-129





I-10 Index

Bundesbank, 1: 587
Bundesverband deutscher Banken
(Deposit Protection Fund), 2:220
oundling, of software products, 1: 716
ounds, 5: 29
Bureau National Interprofessionnel du
Cognac (BNIC), 4: 170
Burger King, 6: 216
ousiness, forms of see forms of business
ousiness 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 (IFRS 5R), 4:576 Business Combinations (SFAS 141R),
4:578
ousiness conditions, for private real
estate investments, 6: 15
ousiness 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, 4:1 6–17
ousiness 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,
6:395–402
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, 3:206–207
"busted convertible" bonds, 5: 173–174, 175
butterfly spreads, 5:473n.33
buybacks, 3: 170–173; 4: 201n.3,
218–219. see also share repurchases
buyers
credit protection, 5: 268–269, 271–272
influence of (see customers)
buyout transactions LBO model, 6: 146–148
leveraged
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
management, 6: 137, 146, 150
mega, 6: 141–142, 151
secondary, 6: 150
stages of, 6: 137
venture capital vs., 6: 144–145, 148–14
buy-side analysts, 4: 31; 6: 250
buy-side clients, 1:31
buy-to-sell orientation, of private equity
6: 138
BVPS. see book value per share
Bylaws and Rules of Procedure for
Professional Conduct (Rules of
Procedure), 1:9, 23
BYPRP method. see bond yield plus risk
premium method

C
CAD. see cash available for distribution
Cadbury Schweppes, 3:300
CAGR. see compound annual growth
rate
calendar spreads, 5:480–481, 492;
6:209–210
calibration, of binomial interest rate
trees, 5:92–94
California, ESG risk exposures, 3:260
California Public Employees Retirement
System (CalPERS), 6:155

callable bonds, 5:127-150 convertible, 5:167-168, 173 default-free bonds at zero interest rate volatility, **5:**129-132 bonds with interest rate volatility, **5:**137–140, 142–145 effective convexity of, 5:158-161 effective duration for, 5:152-154 embedded options of, 5:123-124 interest rate volatility bonds at zero volatility, 5:129-132 bonds with volatility, 5:137–140, 142 - 145and OAS for bonds, 5:147-148 and value of bonds, 5:132-134 key rate durations for, 5:157 one-sided duration for, 5:155 optimal exercise of options, 5:131 risky, **5:**145–150 interest rate volatility and optionadjusted spread, 5:147–149 option-adjusted spread, 5:145-147 scenario analysis of bonds with options, 5:149-150 scenario analysis, 5:149-150 and straight bonds/options, 5:127 and valuation of default-/option-free bonds, 5:128-129 and yield curve, 5:134-136 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, 5:379 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, 5:379 objectives for, 5:484 one-period binomial model for,

5:380–385

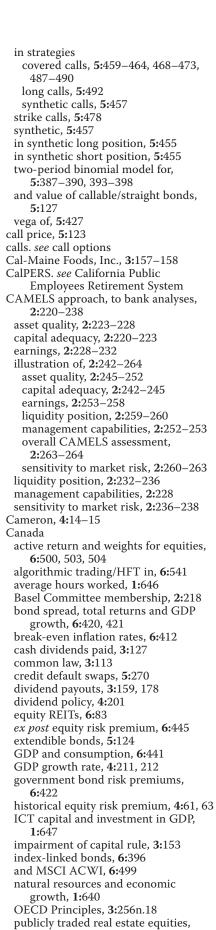
rho of, 5:428-429

with sinking fund bonds, 5:125

Cumulative_Ind_L2 10 June 14, 2018 9:39 PM







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 Canadaco/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, 6:13, 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/ratios, 2:386 capital asset pricing model (CAPM), 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, 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, 3:15-16discounted payback period, 3:14-15 internal rate of return, 3:11-12, net present value, **3:**10–11, 17–22 payback period, 3:13-14



I-12 Index

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, 4:133 of Nestlé, 2:387-392 in valuation of real estate investments, **6:**43 of WorldCom, 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 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, 3:93-94 and longer-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 evaluating 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 costs of financial distress, 3:103-104 and financial leverage/cost of equity, 3:96-98 irrelevance to value, 3:94-96and static trade-off theory, 3:106-108 and taxes, 3:98-103 capital-to-labor ratio, 1:635-636, 678 Capitol Shopping Center REIT Inc case study, **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 caplets, **5:**416 CÂPM. see capital asset pricing model capped floating-rate bonds (capped

caps, interest rate, 5:416 Carbon Disclosure Project, 4:17 care. see Loyalty, Prudence, and Care [Standard III(A)] Cargill, 4:556; 6:216 Carhart four-factor model, 6:283-285 factor risk premium for, 6:281 return in excess of risk-free rate in, returns attribution with, 6:294-296 Carlsberg, 4:138, 140, 151 The Carlyle Group, 6:136, 141 Carl Zeiss Meditec AG, 4:227-228, 230 Carrefour SA dividend discount model, 4:208 and European beer market, 4:146 input and product prices at, **4:**149-150 justified P/E, 4:223-224 carried interest, 4:587n.37; 6:153 carry arbitrage in bond market, 5:335 defined, 5:315 reverse, 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:**313–314 cash flows related to carrying underlying, **5:**311–312 cash flows with forward market price too high, 5:314-315

cap rate. see capitalization rate

Cumulative_Ind_L2 12 June 14, 2018 9:39 PM

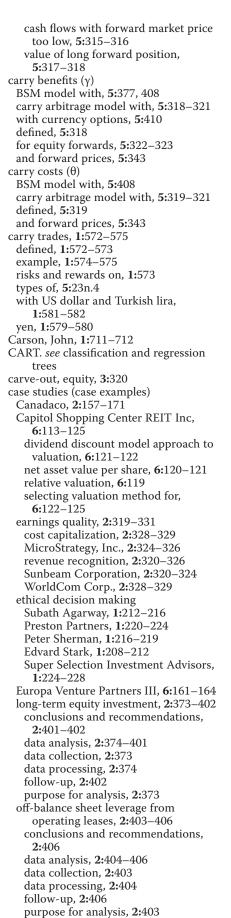
floaters), **5:**161–163

ratchet bonds, **5:**162–163

valuation of, 5:161-162, 164-166







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 (AFFÓ) 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, 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 and 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,

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, 2:300 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 - 451for 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

5:312-314, 319-320

5:335-336

5:314-315

5:315-316

for fixed-income futures pricing,

with forward market price too high,

with forward market price too low,



I-14 Index

cash flow quality, 2:333-342 and 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 cash flow statements. see statement of cash flows cash flow yield (CF/P), 4:392 cash-generating units, 4:559n.6 cash generation, of segments, 2:391 cash offering, 3:290, 291 cash-on-cash return, for private real estate debt, 6:62 cash operating return, 2:391-392cash-secured puts, 5:468–469 cash settlement and commodities pricing, 6:210 of credit default swaps, 5:273-274 for stock index futures, **5:**453 cash tax rate, 4:128-131 casualty insurance, 2:265 catalyst, valuation, 4:8 Caterpillar, Inc., 2:95-97 causal inferences, 1:379 causation, correlation and, 1:273 Cayman Islands, 6:142 CCM. see capitalized cash flow method C/C++ programming language, **1:**249 CDOs. see collateralized debt obligations CDS. see credit default swaps CDS percentage price change, **5**:284–285 CDS spread, 5:271 CDS swaptions, 5:269n.4 CDX HY index, 5:275 CDX IG index, 5:275 CEICs. see closed-end investment companies Celler-Kefauver Act, 3:299 Central America, 6:202. see also specific countries Central Bank of Argentina, 2:217 Central Bank of Brazil, 2:217 Central Bank of Chile, 2:219 Central Bank of Germany (Deutsch Bundesbank), 2:218 Central Bank of Malaysia, 2:219 Central Bank of Sweden (Sveriges Riksbank), 2:218 Central Bank of the Republic of Turkey, **2:**218 Central Bank of the Russian Federation, 2:218 Central Bank of the United Arab Emirates, **2:**219 central banks business cycle and policy rates of, **6:**405–406 discount borrowing windows of, 1:723-724 estimates of potential GDP by, 1:630, in exchange rate management, 1:595 purchase of US Treasuries by Asian, and slope, level, and curvature of yield

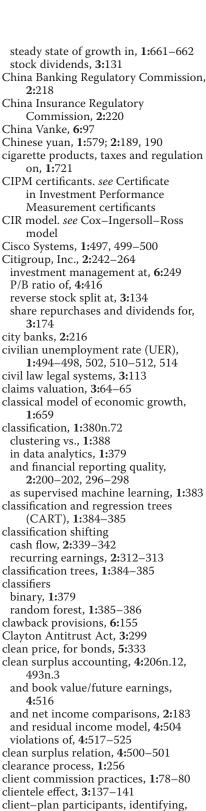
curve, 6:417

Centurytel, 4:402-404, 458 CEOs. see chief executive officers CEP. see complex event processing Ceres, 4:17 certainty-equivalent method, 3:49n.12 Certificate in Investment Performance Measurement (CIPM) certificants, 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 compromising 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, 4:16 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)], 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, 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 Chaplinsky, 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 χ² 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 convergence with advanced countries, 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

I-15 Index



Communication with Clients and

disclosure to, 1:150-151 duties to (see Duties to Clients Standard of Professional Conduct III]) fair dealing between, 1:90 gifts and entertainment from, 1:39 identifying, 1:75, 80-81, 93 informing, of investment process, **1:**138–139 interests of, 1:78 loyalty to, 1:81 maintaining lists of, 1:85 preferences for capital gains vs. dividends, 3:139-140 priority of personal trading vs. trading for, 1:157 relationship with, 1:543 risk profile of, 1:91 select, additional services for, 1:88 soliciting former, 1:109-114 status of, 1:102 client updates, 1:131-132 Clorox, 4:120n.2, 121 CLOs. see collateralized loan obligations closed-end funds, 2:216 closed-end investment companies (CEICs), 4:587, 590 closed-end private equity funds, 6:152 closet index funds, 6:481 clothing, commodity hedging and, **6:**216 club convergence, 1:675 clustering algorithms for, 1:388-389 in data analytics, 1:379-380 CMA. see Competition & Markets Authority CMBS. see commercial mortgage-backed securities CME. see Chicago Mercantile Exchange CME Group, 5:29 CNA Financial Corp., 2:270 CNH Global N.V., 2:95-97 Coase Theorem, 1:709 Cobb-Douglas production function, **1:**633–635 and growth accounting equation, 1:637-638 and neoclassical model of economic growth, 1:659-660 Coca-Cola acquisition of Cadbury Schweppes, **3:**300 price increases, 4:145 share-based compensation, 2:108 Coca-Cola Bottling Company Consolidated, 4:202-204 CoCoCos. see convertible contingent convertible bonds CoCos. see contingent convertible bonds Code of Ethics (CFA Institute), 1:5-15 adoption of, 1:10 and analyst's position of trust, 4:33; 6:265 and applicable law, 1:22-23

evolution of, 1:6

and importance of ethics, 1:11-15

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) adopting, 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 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 (MBSs), 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 - 483combined ratio, 2:266-267, 269 combined ratio after dividends, 2:269 Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission), 2:218

1:78

buy-side, 1:31

V(B)

approval from, 1:77

communication with (see

to follow, 3:287

Prospective Clients [Standard

cross-border mergers and acquisitions

clients



commerce, regulation of, 1:713-716

commercial code, in IOSCO framework,

commercial mortgage-backed securities

June 14, 2018 9:39 PM

commercial banks, 2:215-216

(CMBS), 5:248; 6:80

1:713-714



I-16 Index

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
grains, 6: 201–202
industrial/precious metals, 6: 199–200
livestock, 6 :200–201
softs (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
grains, 6: 194
industrial (base) metals, 6: 194
livestock, 6: 194–195
precious metals, 6: 195
softs (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 (DBLCI), 6: 230–232
key characteristics, 6: 230–232
rebalancing frequency, 6: 233 Rogers International Commodity Index
(RICI), 6: 230–233
S&P GSCI, 6: 230–232
summary, 6: 233–234
Thomson Reuters/CoreCommodity
CRB Index (TR/CC CRB), 6: 230,

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 hedgers, 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 softs (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 common law, 3:113 common-size balance sheets, 2:329 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, 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

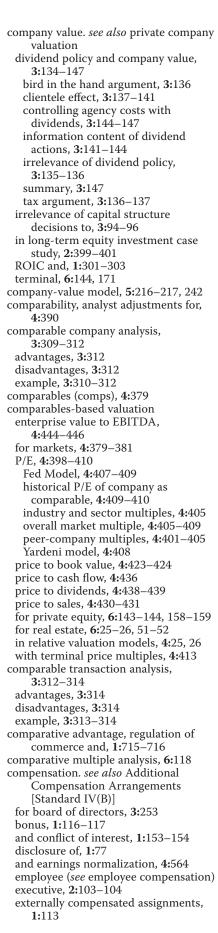
forecasting performance of, 4:11, 22 - 23guideline, 4:379 insurance, 2:217; 3:300 (see also specific types) neglected company effect, 1:398-399 in net asset value approach, 6:101 no-growth, 4:220-221 non-dividend-paying, 4:229-230 nonpublic, **4:**77–79 online payment, 2:216 peer-company multiples for P/E, **4:**401–405 public beta estimation for, 4:73-77 independence and objectivity of, 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:**292–293 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

Cumulative_Ind_L2 16 June 14, 2018 9:39 PM

closed-end investment, 4:587, 590







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 competence, 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 Competition & Markets Authority (CMA), 1:282 competitive analysis, 4:12-15 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, misrepresenting, 1:52 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, pricing currency forwards with, 5:340, 341 comprehensive income, 4:516, 521-525. see also other comprehensive

concentration of funding, 2:233 Conceptual Framework for Financial Reporting, 2:292n.3 conclusions of equity valuation process, 4:11, 31 - 33of financial statement analysis, 2:401-402, 406 research report, 4:36 Condit, Phil, 3:206 conditional convergence, 1:674-675 conditional heteroskedasticity, autoregressive models for time-series analysis with, 1:481-484 Breusch-Pagan test for, 1:352-354 conditional probabilities of default, 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, 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 and directorship, 1:154-155 disclosure of, 1:77 (see also Disclosure of Conflicts [Standard VI(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

Cumulative_Ind_L2 17 June 14, 2018 9:39 PM

income (OCI)

Computer Associates, 3:210, 213

computerized trading. see algorithmic

trading and high-frequency

Compustat, 4:73

trading







I-18 Index

Conflicts of Interest (Standard of
Conflicts of Interest [Standard of
Professional Conduct VI],
1: 149–164
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
text of, 1: 18, 149
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
text of, 1: 18, 157
Referral Fees [Standard VI(C)],
1:162–164
application of the standard,
1:162–164
compliance procedures, 1:162
guidance, 1: 162
text of, 1: 18, 162
conglomerate discounts, 4: 28–29
conglomerate mergers, 3: 281
Connecticut, ESG risk exposures, 3:260
consensus, in distributed ledger
networks, 1:254, 255
conservative accounting choices, 2: 293
Consideration of Fraud in a Financial
Statement Audit (American
Institute of Certified Public
Accountants), 4: 18
consistency, in regulation, 1: 708
consolidated affiliates, 4: 132
Consolidated and Separate Financial
Statements (IAS 27), 2:36
consolidated balance sheets, 2:48-50,
225, 300–301
consolidated financial statements
balance sheets, 2: 48–50, 300–301
business combinations on
combinations with less than 100%
acquisition, 2: 42–43
consolidation process, 2:42
goodwill impairment, 2: 46–48
noncontrolling interests, 2:43–46
income statements, 2: 49–51, 300–301
Consolidated Financial Statements (IFRS
10), 2: 10, 36, 43n.30, 52
consolidated income statements
after mergers and acquisitions,
2: 300–301
of GlaxoSmithKline, 2:49–51
of Rémy Cointreau, 4: 174–175
consolidated securitization transactions,
2: 53–55
2:53–55 consolidation
2:53–55 consolidation other business combinations vs., 2:36;
2:53–55 consolidation other business combinations vs., 2:36; 3:280
2:53–55 consolidation other business combinations vs., 2:36; 3:280 process of, 2:42–48
2:53–55 consolidation other business combinations vs., 2:36; 3:280 process of, 2:42–48
2:53–55 consolidation other business combinations vs., 2:36; 3:280 process of, 2:42–48 proportionate, 2:23–24 Consolidation (ASC 810), 2:10, 43n.30, 52
2:53–55 consolidation other business combinations vs., 2:36; 3:280 process of, 2:42–48

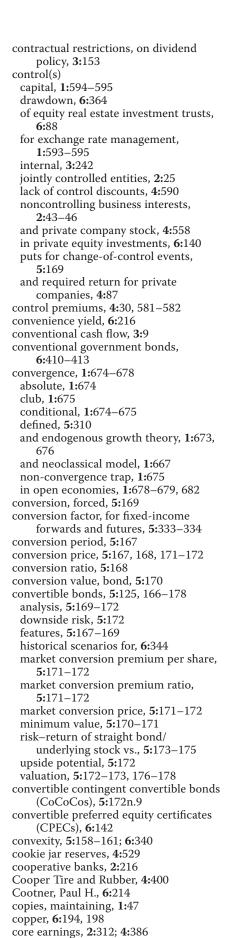
Consolidation-Special Purpose Entities (SIC-12), 2:36 constant dividend payout ratio policy, **3:**155, 157–158 constant-growth FCFE model, 4:289 constant-growth FCFF model, **4:**288–289 constant returns to scale, 1:634 constraints book value, 1:527-528 cash flow, 1:528 earnings, 1:528 investor, **6:**261–264 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 for market risk management, **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 in market risk management, 6:361-366 market value, 1:528 simulations with, 1:527-528 consumer asset-backed securities (ABS), **5:**248 consumer cyclical sector, 6:432 consumer goods market, 4:146-147 consumer loans, 2:251-252 consumer non-cyclical sector, 6:432 consumers, regulation of financial markets for, 1:717 consumption, GDP and, 6:441-442 consumption hedging, 6:438-439 contango, 6:210 defined, 6:209 Hedging Pressure Hypothesis, **6:**214–216 and roll return, 6:220-225 and Theory of Storage, 6:216 Continental AG, 4:400 contingencies, embedded options on, **5:**125 contingent assets, 2:55 contingent claims, 5:268, 375-446 about, **5:**376 binomial option valuation 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 option valuation model, 5:412-419 for European options on futures, **5:**412–414 for interest rate options, 5:414-417 for swaptions, 5:417-419 Black-Scholes-Merton option valuation 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 practice problems, **5:**436–442 solutions to problems, 5:443–446 contingent consideration, 2:55; 4:584 contingent convertible bonds (CoCos), 5:172n.9 contingent liabilities, 2:38, 55 contingent obligations information about risk in, 2:351-355 notes about, 2:351 contingent puts, 5:163 continuing earnings, 4:386 continuing residual income, 4:507 continuing value, 4:228 continuous compounding carry arbitrage model with, 5:321 equity futures price with, 5:322 exponential growth with, 1:440 pricing currency forwards with, 5:340, 341 continuous dividend yield, stock indexes with, **5:**321 continuously compounded dividend yield, 5:408 continuously compounded foreign riskfree interest rate, 5:410 continuously compounded interest, in BSM model, 5:404 continuous risk, 1:531 contract law, 1:713-714; 3:210 contracts expiration date for, 5:378 forward (see forward contracts [forwards]) futures (see futures [futures contracts]) and inflation/deflation, 4:150-151 initiation date for, 5:378 for management and private equity firms, **6:**143 multiple-element, 2:324-326 option (see options [options contracts]) purchase, 2:343 smart, 1:254 swap (see swap[s] [swap contracts]) contract surrenders, 2:276 contractual maturity mismatch, **2:**233-234

Cumulative_Ind_L2 18 June 14, 2018 9:39 PM





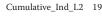


corn (maize), 6:194, 197 corporate board seats, for private equity firms, 6:143 corporate bonds benchmark bonds vs., 5:234-235 in credit risk modeling, 5:202 credit spread calculations with, **5:**236–238 credit spreads for, 6:427-431 fair value calculations, 5:239-240 historic rates of default on, **5:**212-213 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 - 275agency 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:**231–233 principal-agent relationships, 3:206-207 defined, 3:226 ensuring ethical behavior with, 3:222 ESG risk exposures, 3:260-262 evaluations, **3:**234–260 board of directors, 3:235-248 examples, 3:248-260 forms of business, 3:227-230 corporations, 3:229-230 partnerships, 3:229 sole proprietorships, 3:228-229 objectives and guiding principles, 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 Corporate Governance Handbook (New York Society of Securities Analysts), 3:234, 237 The Corporate Governance of Listed Companies (CFA Institute), **3:**235–236 corporate income tax, 4:128-131, 177 corporate insiders, regulations for, 1:709, corporate investments, categories of, 2:9 corporate loans and loan losses, 2:251-252 risk weighting of, 2:221

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), corporations, conflicts of interest in, 3:229-230 correction, of unintentional errors, 1:48 correlated errors, testing trend models for, 1:446-447 correlation(s). see also autocorrelations; serial correlation across risks, 1:531 credit, 5:270 in data analytics, 1:379 ex ante risk-weighted, 6:490 pairwise, 1:360 positive serial, 1:356–358 for probabilistic variables, 1:522, 529 spurious, 1:273 style analysis, 1:274-275 unstable, 1:529 correlation analysis, 1:264-285 correlation coefficient, 1:265-270 about, 1:265-268 calculating and interpreting, 1:268-270 significance tests of, 1:282-285 of debt and equity returns, 1:278-279 defined, 1:265 evaluating economic forecasts with, 1:273-274 exchange rate correlations, 1:275-277 of large datasets, 1:281-282 limitations of, **1:**270–273 of net income, CFO, and FCFF, 1:280-281 and scatter plots, 1:264-265 spurious correlation, 1:273 of stock index returns, 1:277-278 style analysis correlations, 1:274-275 uses of, 1:273-282 correlation coefficient, 1:265-270 about, 1:265-268 calculating and interpreting, 1:268-270 significance tests of, 1:282-285 correlation risk, 6:335 correlation triangle, 6:489 corruption, 3:214 cost(s) administrative, 6:157 after-tax, 3:101-102 agency, 3:104-105, 144-147 audit, 6:157 average cost of inventory, 2:152 bonding, 3:104 company, 4:151 development, 2:55-56 of equity REITs, 6:88 finance, 4:176-177 of financial distress, 3:103-104 fixed, 4:114-115











I-20 Index

cost(s) (Continued)
flotation, 3: 136, 152–153
funding, 1: 723–724
health care, 2: 95–97
implementation, 1:718–719
indirect, 1: 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: 328
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: 46n.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
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
cost approach
to private company valuation,
4:586–588
to real estate valuation, 6: 46–51
advantages and disadvantages, 6: 53
estimating depreciated replacement
cost, 6: 46–49
example, 6: 49–51
income and sales comparison
approaches vs., 6: 25–27
cost arrangements, restricting, 1: 36
cost arrangements, restricting, 1:50
1:718-720
cost capitalization, earnings quality and,
2: 328–329
cost model, of investment property

valuation, 6:98-99

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
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
fixed-, 5: 123
floating- capped, 5: 161–166
fixed- vs., 5: 123
floored, 5: 163–166
ratchet, 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

coupon rates, 5:219, 220 coupons, CDS, 5:271n.6 courage, moral, 3:222-223 Courtois, Yves, 6:140n.1 covariance and correlation coefficient, 1:268-270 in factor analysis models, 6:285 for risky assets, 6:390-391 covariance-stationary time series in autoregressive models, 1:448-449 and first-differencing transformations of variables, 1:462-464 in regressions with multiple time series, 1:484–485 in time-series forecasting, 1:489-490 and unit test of nonstationarity, 1:465-469 coverage pre-tax interest, 6:433 prior, 1:38 probit models for, 1:377-378 coverage ratios debt service, **6:**62 defined, 3:179 and dividend safety, 3:180-182 interest, 2:406 liquidity, 2:232, 259 covered bonds, as securitized debt, **5:**250-251 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 covered interest rate parity for currency derivative contracts, 5:338 equation, 1:550 in exchange rate determination, 1:558 and international parity conditions, 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

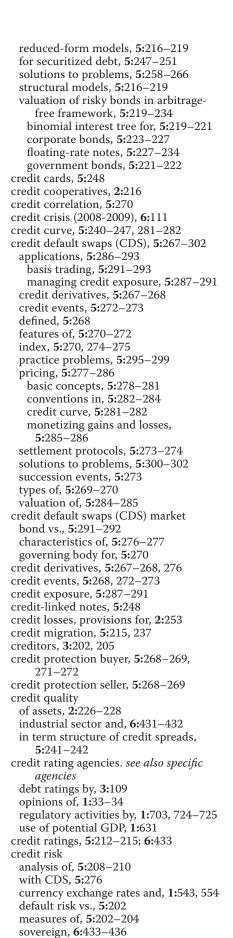
credit valuation adjustment, 5:204-208

practice problems, 5:253-257

viewing securities as, 5:79







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, 3:286-287 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; 6:139-140 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, foreign currency designation, 1:541n.1 functional, 2:131, 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, 1:556-572international parity conditions, 1:557-572 terminology, 1:556-557 monetary approach to, 1:587–588 and monetary policy, 1:585-592 example, 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

Cumulative_Ind_L2 21 June 14, 2018 9:39 PM







I-22 Index

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
valuation, 5: 351–352, 354–356
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
curvature, 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, **6:**442–444 equity premiums for, 6:450-451 cyclicality, industry, 4:163-164 Czech Republic, 3:256n.18 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, 1:247 data mining, 1:363 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 DC/FC notation, 5:338 DCF method of valuation. see discounted

cash flow method of valuation

DC pension plans. see defined-

contribution pension plans

models

DCF models. see discounted cash flow

DDMs. see dividend discount models dead-hand provision, 3:294 bid-offer currency prices, 1:541, 543 bid-offer spread for forward swaps, as investment industry intermediaries, **2:**216 swap, **6:**226 death-put bonds, 5:125 debit 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 taxes, 3:98-103

and static trade-off theory, 3:106-108



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 independence 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, 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 decision trees about, 1:533 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 and credit ratings, 5:212, 237 in credit risk modeling, 5:203-204 credit spreads for bonds with high, 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, **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 - 145with interest rate volatility, **5:**137-145 option-free bonds, **5:**128–129 putable bonds, 5:130–132, 137–138, 140 - 145at 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 risk, 5:202; 6:382. see also credit risk; risky bonds default risk screen (DRSK), 5:242-243 default time, 5:216 defensive investments, 6:441 deferred payoffs, 5:400n.8 deferred taxes, 4:298-299; 6:105 defined-benefit (DB) pension plans, 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, physical, 6:210-211 for sinking fund bonds, 5:126 code of ethics at, 3:220-221 IPO of, 3:203-204 Dell, Michael, 3:220 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.28 DE Masterblenders, 4:151 demographic influences

on private real estate equity

denial-of-service attacks, 6:546

on real estate investment trusts, 6:93

investments, **6:**16

Cumulative_Ind_L2 23

June 14, 2018 9:39 PM

default rates, 6:428, 429



I-24 Index

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 DÊPI. see depreciation index depositing, as arbitrageur strategy, **5:**328-329 Depository Trust and Clearinghouse Corporation, 5:277 Deposit Protection Fund (Bundesverband deutscher Banken), 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 covered calls, 5:459-464, 468-473 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 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 exercise in, 5:483 forwards currency, 5:492 synthetic assets with forwards, 5:456 futures currency, 5:450-452 interest rate, 5:448-450 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 analytics for, 5:486-487 applications, **5:**491–492

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 Determinations Committee (DC), **5:**273 Deutsch 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 Deutschemarks, German, 1:580-581 Deutsche Postbank AG, 2:26 developed countries. see also advanced economies carry trade returns for, 1:574 convergence 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

equity risk premium in, 4:66-67

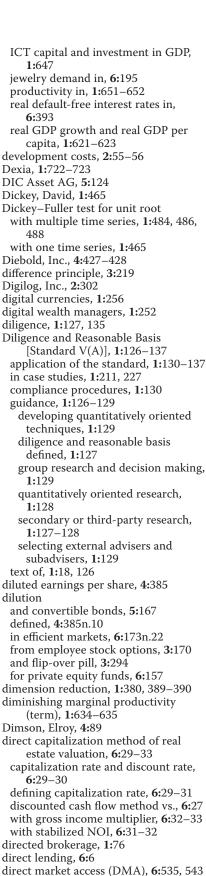
tax and regulatory systems, 1:625

Cumulative_Ind_L2 24 June 14, 2018 9:39 PM

defined, 5:473







direct negotiation, for share repurchases,

conflicts of interest for, 1:151-152,

3:162-163, 169

154 - 155

conflicts with shareholders, **3:**233–234 education of, 3:254 election of, 3:239 independence of, 3:236-237, 250 - 251non-employee, 3:252, 253 qualifications of, 3:238-239, 249-250 selection of, 3:251 separate sessions of, 3:241 succession plans for, 3:253 Directory of Registered Investment Advisors (Standard & Poor's), 6:248 direct ownership, of real estate, 6:6 direct writers, of insurance policies, 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 - 259discount 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 personal investing policies, 1:160 personal trading, 1:160, 161 possible illegal activity, 1:104 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, compliance procedures, 1:152guidance, 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), 2:10 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, for mergers and acquisitions, **3:**303-309 discounted cash flow (DCF) method of valuation 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 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 factors affecting longer-term growth rates, **6:**111–113 forecasting longer-term growth rates, **6:**110 valuation inputs for, 4:182-183 discounted cash flow (DCF) models. 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



Cumulative_Ind_L2 25 June 14, 2018 9:39 PM







I-26 Index

discounted dividend valuation. **4:**197-279 about, 4:198-199 dividend discount model, 4:207-210 for multiple holding periods, 4:208-210 for single holding period, 4:207-208 Gordon growth model, 4:210-225 dividend growth, earnings growth, and value appreciation in, **4:**217-218 equation, 4:210-217 estimating required return, 4:224-225 examples, 4:212-217 implied dividend growth rate, 4:219-220 with negative growth, 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 and share repurchases, 4:218-219 growth rates in, **4:**241–247 financial models and dividends, 4:246-247 and retention rate/ROE analysis, 4:243-246 sustainable, 4:241-242 multistage 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 two-stage dividend discount model, 4:226-229 practice problems, 4:251-266 present value models, 4:199-207 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 residual income in, 4:205-206 required return from, 4:239-240 solutions to problems, 4:267-279 discounted payback period, 3:14-15 discount factor 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 discount for lack of control (DLOC), discount for lack of marketability (DLOM), 4:30, 591-592

discount function, 5:7

discounting with carry arbitrage model, 5:321 future cash flows, 6:381 in venture capital method of valuation, **6:**171–172 discount margin (DM), of floating-rate notes, 5:230-231, 234 discount rates for cash flows from simulations, 1:529-532 for commercial real estate, 6:453-454 and decision trees/scenario analysis, 1:531-532 errors with, 3:57 in expectations approach to options valuation, **5:**385 and key rate durations, 5:157 nominal, 4:92 overnight index swap rate as, 5:327n.11 in present value models, 4:199-200; **6:**381–382 for private companies, 4:567, 571–574 for private equity investments, 6:144 for private real estate investments, **6:**29–30, 33, 44 real, 4:92, 320-321 and required rates of return, 3:9; 4:571 and returns, 4:57 risk-adjusted, 1:529-532 for risky bonds, 5:145 selection of, 4:92 and uncertainty of future cash flows, **6:**381, 382 discounts, 4:588-595 application of, 4:592-594 conglomerate, 4:28-29 on convertible bonds, 5:171n.8 defined, 4:199 forward, 1:550, 561 illiquidity, 4:30 lack of control, 4:590 lack of marketability, 4:30, 591-592 and premiums, 4:588-589 in present value models, 4:64 for risk, **6:**390–392 discrete dividends, equity forward pricing and valuation with, 5:322-323 discrete risk, 1:531 discretionary accruals, 2:314 discriminant analysis, for qualitative dependent variables, 1:377 dispersion, 5:486 disproportionate returns, 4:590 dispute resolution system, in IOSCO framework, 1:714 dissemination of information, 1:60, 84-85, 161-162 dissociation, 1:26-28 distressed securities (private equity class), 6:137 distributed ledgers, 1:254-255 distributed ledger technology (DLT) fintech for, 1:239, 241, 253-257 adding transactions to ledgers, 1:255

distributed to paid in (DPI), 6:160 distribution(s) in Europa Venture Partners III case study, 6:162, 163 funds/cash available for, 6:105 life and health insurance companies, 2.273-276 property and casualty insurance companies, **2:**265–266 distribution area laws, 1:26 distribution expenses, 4:119, 173-174 distribution waterfall, for private equity funds, 6:155 diversification commodities and, 6:190 with equity REITs, 6:86 of L&H insurance investments, **2:**278-279 and Loyalty, Prudence, and Care [Standard III(A)], 1:77 with mergers and acquisitions, 3:284 with private equity investments, 6:157 with private real estate investments, and Suitability [Standard III(C)], 1:92 diversified real estate investment trusts, **6:**91, 94 divestiture, 3:319; 4:9 Dividend Aristocrats, 3:142–143 dividend coverage ratio, 3:179-182 dividend discount models (DDMs), 4:207-210 as absolute valuation model, 4:23-24 Capitol Shopping Center REIT Inc. case study, **6:**121–122 for Coca-Cola Bottling Company and Hormel Foods, 4:202-204 and dividends as returns, 4:201-204 FCFF and FCFE vs., 4:284 for multiple holding periods, **4:**208–210 multistage (see multistage dividend discount models) and residual income model, 4:500-501, 512 - 514and share repurchases, 4:218-219 for single holding period, 4:207-208 for valuation of REITs and REOCs, 6:110 dividend displacement of earnings, **4:**242, 437 dividend imputation tax system, 3:151 dividend index point, 5:321 dividend payout ratio constant, 3:155, 157-158 defined, 3:129 and dividend safety, 3:179-183 and FFO/AFFO, 6:115 global trends in, 3:177-178 dividend policy, 3:125-197 and company value, 3:134-147 bird in the hand argument, 3:136 clientele effect, 3:137-141

controlling agency costs with

information content of dividend

irrelevance of dividend policy,

dividends, 3:144-147

actions, 3:141-144

3:135-136

Cumulative_Ind_L2 26 June 14, 2018 9:39 PM

investment management applications,

permissioned and permissionless

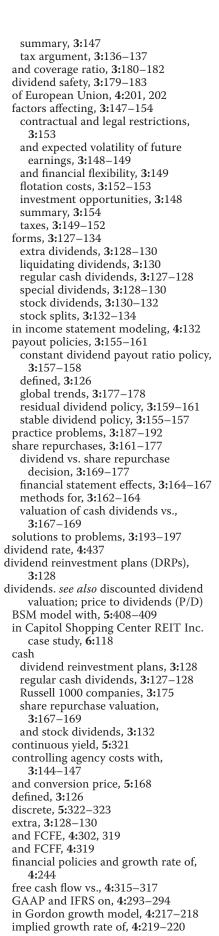
challenges, 1:257

networks, 1:255

1:256-257







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, 5:456n.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, 2:269 dividends to shareholder ratio, 2:269 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 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 floatingrate 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, **2:**189, 190 CAD/USD currency pair, 1:541n.2, 543 and capital flows, 1:580 correlation of exchange rate returns, 1:275-277 currency code, 1:605 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, 1:462-464 forward points for, 1:552n.9 triangular arbitrage with, 1:544-545 real GDP per capita, 1:621–622 real 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 Donaldson Company, Inc., **4:**27–28 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, downstream transactions, 2:31, 33-34 D/P. see dividend yield DPI. see distributed to paid in DPS. see dividends per share drag along rights, private equity funds, 6:156

drawdown, 6:357-358

June 14, 2018 9:39 PM







I-28 Index

drawdown control, 6:364 DRC. see Disciplinary Review Committee Dreyfus Appreciation Fund, 1:307-308 drift in equilibrium models, 5:39, 41 in Monte Carlo method of valuation, 5:100 random walks with, 1:464 DRPs. see dividend reinvestment plans DRSK. see default risk screen Druyun, Darleen, 3:205, 206 DSCR. see debt service coverage ratio DSO. see days sales outstanding DSR. see days sales receivable index dual recourse principle, 5:251 due diligence for equity REITs, 6:90-91, 95-96 and failed investments, 1:135 in financial research and analysis, 1:33 for private equity valuation, 6:158 for private real estate investments, **6:**54–55 by sell-side analysts, 4:32 in submanager selection, 1:132-133 sufficient, 1:130, 133-134 Duffie, Darrell, 5:216 Duke Energy, **4:**439 dummy variables, in regression analysis, 1:344-348 Dunlap, "Chainsaw" Al, 2:320 DuPont. see E. I. DuPont de Nemours and Company DuPont analysis data for, 2:379-380 expanded, 2:380-381 and goodwill impairments, 2:381-382 in long-term equity investment case study, 2:374-385 net profit margin spread, 2:384 and provisions, 2:381-382 of ROE and forecasting dividend growth rates, 4:241, 243 for long-term equity investment, 2:383 and residual income valuation, **4:**516-517 in spreadsheet modeling, 4:238 in valuation based on forecasted fundamentals, 4:429 duration(s), 5:151-158 curve, 5:151 defined, 4:65n.21 effective, **5:**51–52, 151–155 of interest rate futures, 5:449-450 interest rates and changes in (see effective convexity) of interest rate swaps, 5:449 key rate, 5:51, 52, 156-158 modified, 5:151, 449n.2 one-sided, 5:155-156 as sensitivity risk measure, 6:339-340 vield, 5:151 Durbin-Watson test statistic for autoregressive models, 1:449 critical values, 1:743 and serial correlation, 1:356-358 for time-series trend models, 1:447 Dutch auction, 3:162 Dutch disease, 1:640

Dutch guilder, 1:640n.13 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 in case studies, 1:209-210, 222-223 compliance 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 compliance 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 compliance 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 compliance 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 - 228and changes in investment objectives, 1:233-234 compliance 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 compliance 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 compliance 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 compliance procedures, 1:120-122 eleventh edition revision, 1:7-8 guidance, 1:118-120 text of, 1:18, 118 dynamic portfolios, replicating option payoffs with, 5:377

E. I. DuPont de Nemours and Company (DuPont), 4:228-229 early exercise of American-style call options with dividends, 5:393-394 of American-style put options, **5:**390-393 early warning systems, for currency crises, 1:596-598 earnings. see also price to earnings ratio (P/E)abnormal, 4:496 adjusted, 4:386 bootstrapping, 3:284-285 CAMELS approach to bank analyses, **2:**228-232, 253-258 capitalization of earnings method, 4:570 in Capitol Shopping Center REIT Inc. case study, 6:118 continuing, 4:386 core, 4:386 discounted abnormal earnings model, 4:496 dividend displacement of, 4:242, 437 and equity REITs vs. REOCs, 6:87 excess earnings method for private companies, 4:569, 570, 577-578 for residual income valuation, 4:501n.10 future, 3:148-149, 154; 4:516 in Gordon growth model, 4:217-218 life and health insurance companies, 2:276-277 mean reversion, 2:318-319 of Nestlé, 2:399-401 normalized, 4:164, 563-564 persistent, 4:386 potential GDP and growth of, 1:628 press releases about, 4:16 in private equity valuation, 6:138 property and casualty insurance companies, 2:266-270 quality of earnings analysis, 4:18-22 recurring, **2:**310–313 retained, 2:152-153 scaled earnings surprise, **4:**451 simulations with constraints on, 1:528 standardized unexpected, 4:452-453 sustainability of, 2:292-293 trailing P/E with negative, zero, or low, **4:**390–392 underlying, 4:386 unexpected, 4:451-453 earnings before interest, taxes, depreciation, and amortization (EBITDA) adjusting, 4:307-308 bond indenture covenants with minimums on, 3:145 as cash flow approximation, 4:434n.48, 435 enterprise value to (see enterprise value to EBITDA) and FCFE, 4:285, 306-308 and FCFF, 4:285, 306-308, 316-317 forecasting free cash flow with, 4:316-317

Cumulative_Ind_L2 28 June 14, 2018 9:39 PM

dynamic replication, 5:387, 388

Dynegy, 3:210





I-29

EBITDA. see earnings before



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, 4:434 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 MicroStrategy, Inc., 2:324-326 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

interest, taxes, depreciation, and amortization EC. see European Commission ECB. see European Central Bank economic capital, 6:354 economic conditions, credit spreads and, 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, 6:94-96 economic factors in asset valuation, **6:**379-469 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, 6:448-451pricing 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 and 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

and, 3:56 6:432

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 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, 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, 3:58-61 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, 1:708-710 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 economic sectors, 4:399-401 banking, 1:714; 3:113-115; 6:432 commodity, 6:191-196 consumer cyclical and non-cyclical, 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_L2 29 June 14, 2018 9:39 PM

property rights, 1:624

savings and investment, 1:623

tax and regulatory systems, 1:625

and growth accounting, 1:637–638

endogenous growth theory, 1:671-674







I-30 Index

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 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 method, 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 - 157efficiency, 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, confidentiality 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, 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 BSM model for, 5:409-410 as compensation, 2:106-108; 3:243, 244 dilution from, 3:170 pricing models for, 2:106-107 employee stock ownership plans (ESOPs), 3:204; 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 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, energy sector, 6:191-193, 197-199 average annual sector roll return, **6:**224, 225

refined products, 6:193 in Rogers International Commodity Index (RICI), 6:233 Engelhard 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, corporate governance failure, **3:**231-232 due diligence requirements after collapse, 4:32 early 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 enterprise, relationship of stakeholders and, 3:202 enterprise 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 enterprise value multiples, 4:440-448 alternative denominators in, 4:446-447 defined, 4:378, 440 enterprise 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 enterprise value to sales, 4:447 method of comparables for, 4:380 price multiples vs., 4:447-448 enterprise value-to-earnings before interest, taxes, depreciation, and amortization (EV/EBITDA), 6:104 enterprise value to earnings before interest, taxes and amortization (EV/EBITA), 4:446 enterprise value to earnings before interest and taxes (EV/EBIT), 4:446 enterprise 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

enterprise value to EBITDAR (EV/

EBITDAR), 4:446

Cumulative_Ind_L2 30 June 14, 2018 9:39 PM

and commodity hedging, 6:216

crude oil, 6:191-193

natural gas, 6:193

commodity life cycle, 6:197-199

I-31 Index



stock valuation 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 pricing formula, 6:437 quantifying equity risk premiums, **6:**444–445 valuation multiples for, 6:445-447 equity. see also free cash flow to equity (FCFE) after-tax cost of, 3:102 agency cost of, 3:104 approved lists of, 3:137 book value of (see book value of equity) of Citigroup, 2:256-257 cost of, 3:96-98, 102, 104; 4:54 equivalent option interpretation of, **5:**218 free cash flow to (see free cash flow to equity [FCFE]) legal lists of, 3:137 long-term (see long-term equity investment case study) management equity program, 6:148 market value of, 4:90-91, 287 negative book value for, 1:528 required return on (see required return on equity) return on equity (see return on equity) seasoned equity offering, 3:231 shareholders', 4:414 valuation of (see equity valuation) equity capital, cost of, 4:493-494 equity carve-out, 3:320 equity charge, 4:493-494 equity dividend rate, for private real estate debt, 6:62-63 equity exposure, as sensitivity risk measure, 6:339 equity forwards, 5:322-324 equity futures, **5:**322 equity investors, real estate, 6:7, 8 equity IPOs, 1:158-159 equity markets, country, 6:475 equity method of accounting, 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 Equity Office, 6:150 equity premium puzzle, 4:64n.19 equity real estate investment trusts, 6:82-97 characteristics of, 6:84-90 diversified REITs, 6:91, 94 due diligence, 6:90-91, 95-96 economic drivers for, 6:94-96 health care REITs, 6:91, 93-95

hotel REITs, 6:91, 93-95 industrial REITs, **6:**91–93 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 ex post, **6:**444–445 forward-looking estimates, 4:68-71 Gordon growth model, 4:68-69 macroeconomic model, 4:69-71 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, **6:**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/investment 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, selecting valuation models, 4:23-30









I-32 Index

equivalent annual annuity approach, 3:40 equivalent number, for underlying, equivalent yield, in real estate valuation, **6:**40-41 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 - 452correlated, 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, 2:262-263 of 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, 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 of 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 Subath 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

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 beer market, 4:145-146 cash dividends paid, 3:127 CDS contracts, 5:270 civil law, 3:113 commodity and futures regulation, 6:208 commodity exchanges, 6:207 corporate governance failures, 3:226 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, real estate equities market, 6:82 real estate valuation standards,

6:56n.17-18

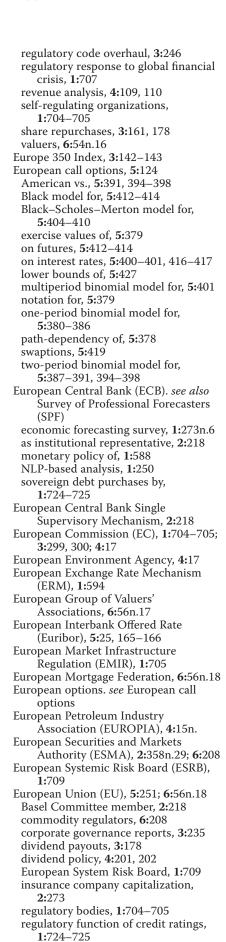
real GDP per capita, 1:622

June 14, 2018 9:39 PM

Cumulative_Ind_L2 32







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 evaluation(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, 2:334-342 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/EBITA. see enterprise value to earnings before interest, taxes and amortization EV/EBITDA. see enterprise value-toearnings before interest, taxes, 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, 2:292n.3 shock, 5:465 succession, 5:273 EV/FCFF. see enterprise value to free cash flow to the firm EV/S. see enterprise value to sales ex ante alpha, 4:54 ex ante estimates, 4:68-71 ex ante information ratios, 6:481 ex ante measurement of skill, 6:512-513 ex ante risk and return, 6:472, 477-478 ex ante risk-weighted correlation, 6:490 ex ante tracking error, **6:**337, 356–357.

see also relative VaR

ex ante version of PPP, 1:565, 570, 571 Excel VBA (programming language), excess earnings method (EEM). see also residual income model for private 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 and 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 investor, 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





June 14, 2018 9:39 PM







I-34 Index

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 floraling-period return, 4:55
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
expenditures on assets at Nestlé, 2: 388–390
on assets at Nestlé, 2: 388–390 capital
on assets at Nestlé, 2: 388–390 capital
on assets at Nestlé, 2: 388–390 capital in FCFF calculation, 4: 290–291
on assets at Nestlé, 2:388–390 capital in FCFF calculation, 4:290–291 in forecasts of FCFE, 4:311–312
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
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
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
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
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
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
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,
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
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
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
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
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
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
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
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,
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
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 expenses
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 expenses compensation, 2:108
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 expenses compensation, 2:108 distribution, 4:119, 173–174
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 expenses compensation, 2:108 distribution, 4:119, 173–174
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 expenses compensation, 2:108
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 expenses compensation, 2:108 distribution, 4:119, 173–174 financing, 4:127–128 general and administrative, 6:106
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 expenses compensation, 2:108 distribution, 4:119, 173–174 financing, 4:127–128 general and administrative, 6:106 interest, 4:127–128
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 expenses 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
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 expenses 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
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 expenses 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
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 expenses 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
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 expenses 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
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 expenses 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,
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 expenses 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
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 expenses 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,

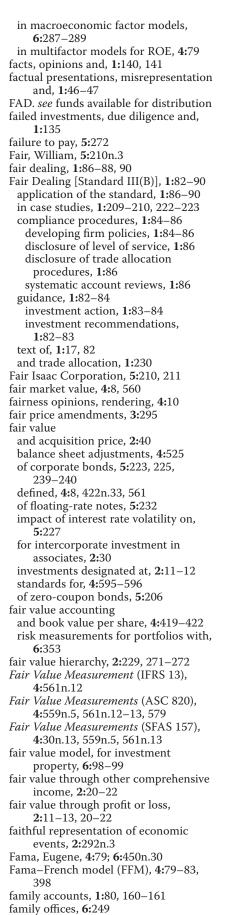
Experian, 5:210
experience, in machine learning, 1: 380
expert counsel, board of directors, 3:245
expert networks, 1:67
experts, 1: 59–60
expert system, 1:244
expiration
of collar, 5: 471
of covered calls, 5:462–464
forward value at, 5: 311
of interest rate swaps, 5: 449
of protective puts, 5: 466–467
expiration date
in binomial option valuation model,
5: 378, 379
CDS, 5:271
expiration value
of covered calls, 5: 462, 463
of protective puts, 5: 466, 467
exploitation, of value chain members, 3:213–214
exponential growth, log-linear trend
models for, 1:440–441
ex post alpha, 4:54
ex post aipha, 4.54 ex post equity risk premium, 6: 444–445
ex post information ratios, 6: 481
ex post performance measurement,
6: 497–499
<i>ex post</i> 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
risk
with currency futures, 5:450–452
with currency swaps, 5: 450–451
with derivatives strategies, 5: 448–454
with derivatives strategies, 5: 448–454 with equity swaps, 5: 452–453
with derivatives strategies, 5 :448–454 with equity swaps, 5 :452–453 ESG, 3 :260–262
with derivatives strategies, 5 :448–454 with equity swaps, 5 :452–453 ESG, 3 :260–262 foreign exchange, 2 :132–135
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 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 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
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
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 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
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
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 transaction, 2:132
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 transaction, 2:132 extendible bonds, 5:124, 142
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129
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 transaction, 2:132 extendible bonds, 5:124, 142 external advisers, selecting, 1:129 external growth, 3:283
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality,
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies)
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) in capital budgeting, 3:9
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, 5:448–450 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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) in capital budgeting, 3:9 and need for regulations, 1:706, 714
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) in capital budgeting, 3:9
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) in capital budgeting, 3:9 and need for regulations, 1:706, 714 as spillover effects, 1:705n.13
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) 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, 1:113
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) 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, 1:113 external manager, travel expenses from,
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) 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, 1:113 external manager, travel expenses from, 1:39–40
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) 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, 1:113 external manager, travel expenses from, 1:39–40 external obsolescence, 6:47
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) in capital budgeting, 3:9 and need for regulations, 1:706, 714 as spillover effects, 1:705 externally compensated assignments, 1:113 external manager, travel expenses from, 1:39–40 external obsolescence, 6:47 external stakeholders, 3:202
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 transaction, 2:132 extendible bonds, 5:124, 142 extension options, 5:124 external advisers, selecting, 1:129 external growth, 3:283 external indicators of earnings quality, 2:319 externality(-ies) 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, 1:113 external manager, travel expenses from, 1:39–40 external obsolescence, 6:47

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
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, 5:38
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

Cumulative_Ind_L2 34 June 14, 2018 9:39 PM







farmland, 6:12 FASB. see Financial Accounting Standards Board fast food, 6:216 fast markets, 5:484 fat finger trades, 6:543 favors, requested, 1:155 FCF. see free cash flow FCFE. see free cash flow to equity FCFF. see free cash flow to the firm FCMs. see futures commission merchants FDI. see foreign direct investment FDIC. see US Federal Deposit Insurance Corporation feature engineering, 1:381 features, in machine learning, 1:381 Federal Deposit Insurance Corporation (FDIC), 1:721; 3:300 Federal Financial Supervisor Authority (BaFin), 2:218 federally related transactions, 4:595n.47 Federal Reserve approval for bank mergers by, 3:300 bank support from, 2:239 and correlation of inflation with stock returns, 1:272 on disclosure of discount window borrowers, 1:724 historical exchange rates and monetary policy, 1:588 inflation and policy of, 1:458, 459 NLP-based analysis of communications, 1:250 quantitative easing, 1:588 quantitative easing by, 5:35-36 Taylor rule and policy rates from, 6:407 Federal Reserve Bank of New York, **2:**218 Federal Reserve Bank of Philadelphia, 1:273n.6 Federal Trade Commission (FTC), 3:299, Federal Trade Commission Act (1914), 3:299 Fed Model, 4:407-409 feedback step (portfolio management), **6:**255–256 fees. see also Referral Fees [Standard management, 6:153, 157 performance, 6:157 placement, 6:157 private equity fund, 6:153, 157 service, 1:40 transaction, 6:153 fences. see collars FFM. see Fama-French model FFO. see funds from operations Fiat S.p.A., 2:93, 94 FICO scores, 5:210-211, 249 fictitious financial reports, 2:294-296 fictitious name, 1:174 fictitious orders, 6:544 Fidelity Magellan mutual fund decomposition of value added for, 6:476-477

information ratio, 6:481, 482 Sharpe ratio, 6:479 Fidelity Select Technology Fund (ÉSPTX) and multicollinearity, 1:360-362 multiple linear regression, 1:337-339 and unit roots, 1:487 fiduciary puts. see cash-secured puts FIFO valuation method. see first-in, firstout valuation method FIIs. see Fundos de Investimento Imobiliaro files current, maintaining, 1:26 of former employers, 1:110 finance costs, 4:176-177 finance industry, artificial intelligence outside of, 1:246 financial account, 1:576n.19 Financial Accounting Standards Board (FASB) business combination standards, 2:37 on financial assets, 2:20 regulations referencing, 1:703 on special purpose entities, 2:52 financial activity, economy and, 6:380 financial assets, 2:10–22 accounting treatments for, 2:9-10 in acquisition method, 2:39 available-for-sale, 2:12, 16-17 classification and measurement of, **2:**20-22 evaluation of, 2:224 fair value through profit or loss, 2:11-12 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 Financial Conduct Authority, 1:250; financial contagion, 1:709; 2:214 financial crisis (2007-2009). see global financial crisis (2007-2009) financial distress, costs of, 3:103-104 financial flexibility, 3:149, 154 financial forecasting, 4:107-195 about, 4:108 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 statement, **4:**177-182 pro forma income statement, **4:**172-177 valuation inputs, 4:182-183 competitive forces, 4:136–145 for Anheuser-Busch InBev, **4:**137-139 five forces framework, 4:136–145 and government regulation, 4:139 in Russian beer market, 4:140-144 financial modeling, 4:108-136 balance sheet, **4:**132-134 cash flow statement, 4:132, 134

Cumulative_Ind_L2 35

June 14, 2018 9:39 PM

expected value added, 6:486, 487







I-36 Index

financial forecasting (Continued) income statement, 4:108-132 scenario and sensitivity analyses, **4:**135–136 inflation/deflation, 4:145-153 cost projection effects, 4:150-153 sales projection effects, 4:145-150 long-term, 4:163-169 assumptions in, **4:**168–169 historical valuation multiples in, 4:166-167 normalized revenue case study, 4:164-169 practice problems, 4:185-191 solutions to problems, 4:192–195 technological developments, 4:153-163 base case scenarios for, 4:161, 162 bull and bear case scenarios for, **4:**161–163 estimating impact of cannibalization, **4:**159–163 quantifying potential for cannibalization, 4:153-159 Financial Industry Regulatory Authority (FINRA), 1:703-704 financial information, quality of, 4:557-558 financial institutions, 2:213-286 about, 2:213-214 bank analyses, 2:220-264 analytical considerations not addressed by CAMELS, 2:238-242 CAMELS approach to, 2:220-238 features of, 2:214-220 global organizations, 2:217-220 and regulatory authorities, 2:220 types of institutions, 2:215-217 insurance company analyses, 2:264-280 life and health insurance companies, **2:**273-280 property and casualty insurance companies, 2:265-273 swap rate and internal operations of, 5:26 Financial Instruments (ASC 825), 2:20 Financial Instruments (IAS 9), 2:10 Financial Instruments (IFRS 9), 2:20-22 classification and measurement, **2:**20-22 intercorporate investments, 2:8-10 reclassification of investments, 2:22 Financial Instruments: Disclosures (IFRS 7), 2:22n.12 Financial Instruments: Recognition and Measurement (IAS 39), 2:10-19 available-for-sale investments, 2:12-14 fair value through profit or loss, **2:**11-12 held-to-maturity investments, 2:10-11and IFRS 9, 2:20 impairments, 2:15–19 intercorporate investments, 2:8, 9 loans and receivables, 2:12-14 reclassification of investments, 2:14-15 financial intermediaries, in developing vs. developed countries, 1:623-624 financial leverage. see leverage financial liabilities, 2:39 financial markets. see markets

financial modeling, 4:108-136 balance sheet, **4:**132-134 defined, 6:318 of growth rates, 4:246-247 income statement, 4:108-132 scenario and sensitivity analyses, 4:135-136 and Standards of Practice Handbook updates, 1:9 financial policies, ROA/dividend growth rate and, 4:244 financial press, 2:358-359 financial ratios, 4:400-401; 6:433 Financial Reporting Council, 2:347n.24 Financial Reporting in Hyperinflationary Economies (IAS 29), 2:154 Financial Reporting Manual (SEC Division of Corporation Finance), 2:355 financial reporting quality, 2:289-370 about, **2:**290–291 balance sheet quality, 2:342-346 clear presentation, 2:346 completeness, 2:343 Sealed Air Corporation, 2:344–346 unbiased measurement, 2:343 cash flow quality, 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, 2:334-337 Sunbeam, 2:338-339 conceptual framework, 2:291-293 earnings quality, 2:310-333 bankruptcy prediction models, **2:**331–332 indicators of quality, 2:310-319 relationship of earnings and financial reporting quality, 2:291 SEC case examples, 2:319-331 evaluating, **2:**305–309 general steps in process, 2:305-306 likelihood of misreporting, **2:**306-309 information about 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 Notes to Financial Statements, 2:346-347, 350-351 potential problems, 2:293-305 accounting warning signs, 2:299-300 classification choices, 2:296-298 compliant reporting that diverges from economic reality, 2:301–305 issues in mergers and acquisitions, 2:300-301 reported amounts and timing of recognition, 2:293-296 practice problems, 2:362-367 solutions to problems, 2:368-370 financial reports

for private company valuation, **4:**559–560 quality spectrum of, 2:292 financial risk, 3:262 Financial Services Agency, 2:218, 220 Financial Services Authority (FSA), 6:263, 543 Financial Services Reform Act (2001), 1:704 Financial Stability Board, 2:219 financial statement analysis. see also integration of financial statement analysis for foreign currency transactions, **2:**135–138 framework for, 2:371-372 financial statements. see also specific financial statements after business combinations, 2:48-51 compiled, 4:566 consolidated balance sheets, 2:48-50, 300-301 business combinations on, 2:42-48 income statements, 2:49-51, 300-301 foreign currency (see foreign currency financial statements) notes to disclosure of translation methods in, 2:178 information about risk in, 2:346-347, 350-355 of Royal Dutch Shell, 2:351-355 reporting post-employment benefits on, 2:81-92 assumptions and actuarial gains/ losses, 2:85–92 DB pension plans, 2:81-85 DC pension plans, 2:81 reviewed, 4:566 share repurchases and, 3:164-167 financial strength, investors, 6:258 Financial Supervisory Service, 2:218 financial technology. see fintech Financial Times Stock Exchange (FTSE), 4:399 financial transactions, 4:581 financing multiple rounds of private equity, **6:**174–175 replicating call options with, 5:382-383 replicating put options with, 5:383-384 financing activities, cash flow from, **4:**293–294 financing expenses, 4:127-128 financing transactions, private company, 4:559 Finansinspektionen (Financial Supervisory Authority), 2:218 Finland active return and weights for equities, 6:500, 503, 504 historical equity risk premium, 4:61, 63 OECD Principles, 3:256n.18 FINRA. see Financial Industry Regulatory Authority fintech, 1:239-261

about, 1:239-240

analytical tools, 1:244-246

and Big Data, 1:241-244

Cumulative_Ind_L2 36 June 14, 2018 9:39 PM

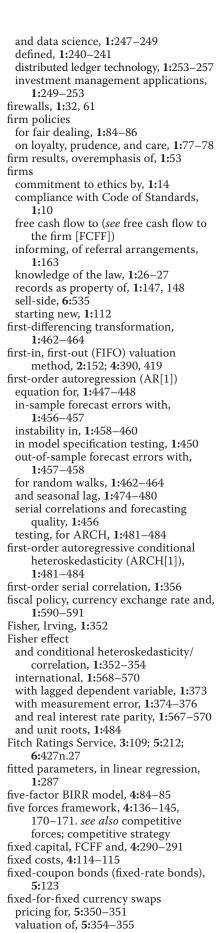
for equity valuation, 4:14, 16

fictitious, 2:294-296





I-37 Index



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, 5:333-334fixed income investors, potential GDP for, 1:631-633 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, 3:162 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, 6:535 "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, 1:585 "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 (floatingcoupon 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, 1:577 follow-up, for financial statement analysis, 2:402, 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, 4:395-398

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 forecasts. see also financial forecasting by appraisers and management, **4:**567–568 capital investment, 4:178 of company performance, 4:11, 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:**181-183 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

Cumulative_Ind_L2 37 June 14, 2018 9:39 PM









I-38 Index

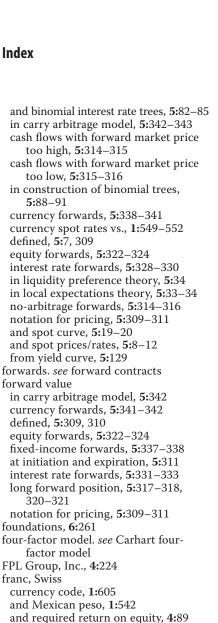
foreign currency financial statements (Continued) monetary/nonmonetary method analytical issues, 2:160-167 balance sheet exposures with, 2:163-166 combined with current rate method, 2:176-177 and currency exchange rate movement, 2:172 translating assets and liabilities with, **2:**146–147 for translating 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 forwards 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, 2:353-354 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 forwards, 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 - 338unique 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

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-looking 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

pricing of FRAs, **5:**328–330



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, 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; 2:328-329 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 FCFF, 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

from net income, 4:302–306
present value of, 4:287
and price of cash flow, 4:432, 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 flow 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 FCFF model, 4:288–289 defining cash flow, 4:285–286 present value of FCFF, 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

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 analyst 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 FCFE from FCFF, 4:301–306 FCFF from net income, 4:289–293 FCFF from statement of cash flows, 4:293–295

forecasting FCFE and FCFF, 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

for international stocks, 4:320–321 and sensitivity analysis of FCFF 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

practice problems, 4:340–358 solutions to problems, 4:359–376

Cumulative_Ind_L2 39 June 14, 2018 9:39 PM







I-40 Index

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, 4:79; 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, 6:423 FSA. see Financial Services Authority FSPTX. see Fidelity Select Technology Fund *F*-statistic tests, **1:**305–306 distribution table, 1:739-742 and heteroskedasticity, 1:349 and multicollinearity, 1:360 with multiple linear regression, **1:**341–343 and serial correlation, 1:356 FTC. see Federal Trade Commission FTSE. see Financial Times Stock Exchange FTSE 100 Index, 1:277-278 FTSE All-Share Index, 1:277–278 FTSE Global Classification System, 4:399 FTSE NAREIT All Equity REITs Index, FTSE Small Cap Excluding Investment Companies Index, 1:277–278 Fuji Electric Co., Ltd, 2:303 Fuller, Wayne Arthur, 1:465 full fair value accounting, risk measurements for portfolios with, **6:**353 full fundamental law of active management, 6:494-497 full repairing and insuring (FRI) basis, **6:**20 full risk analysis, 1:530-531 fully automated digital wealth managers, 1:252 fully let property, 6:30 functional currency defined, 2:131 determination of, 2:149 foreign currency as, 2:150-151 parent's presentation currency as, **2:**151-154 functional form model misspecification of, 1:364-372 nonlinearity and bid-ask spread, 1:366-370 scaling and CFO/free cash flow relationship, 1:370-372 variable bias and bid-ask spread, 1:365-366 functional obsolescence, 6:47 fundamental factor models, 6:289-293 defined, 6:285 factors in, 6:285, 292-293

macroeconomic factor models vs., 6:290-292, 294 return attribution with, 6:293-294 risk attribution with, 6:298-300 statistical factor models vs., 6:293 structure, 6:289-293 fundamental law of active management, **6:**487-515 and active security returns, 6:488-492 applications of, 6:499-512 basic, **6:**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, 1:540 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 concentration 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 Fundos de Investimento Imobiliaro (FIIs), 6:83 funds borrowed, 3:165-166 closed-end, 2:216 closet index, 6:481 exchange-traded, 2:216 fair dealing between, 1:86-87 mutual, 1:720-721; 2:216 pension private equity from, 6:155 risk budgeting, 6:363 private equity, 6:152-156 corporate governance terms for,

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:**342–343 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, 5:334-337 globalization of, 6:211

relationship, 1:370–372
variable bias and bid–ask spread,
1:365–366
functional obsolescence, 6:47
fundamental factor models, 6:289–293
defined, 6:285
factors in, 6:285, 292–293

Cumulative_Ind_12 40

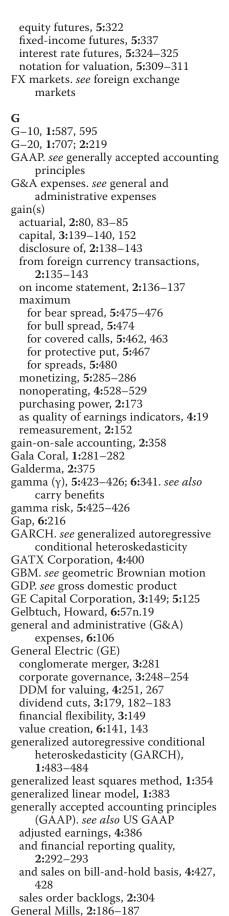
market risk management, 6:358–359
private equity from, 6:155
risk budgeting, 6:363
private equity, 6:152–156
closed-end private equity funds, 6:152
corporate governance terms for,
6:154–156

futures value
in carry arbitrage model, 5:343
currency futures, 5:338
defined, 5:309, 310

June 14, 2018 9:39 PM







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, 2:215 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, 4:61, 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, 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, 6:435 Getinge AB, 4:429-431 GGM. 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, 2:48-51stock options at, 2:106-107 glide path, **6:**359 Glitnir, 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 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 vield 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 GMI. 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



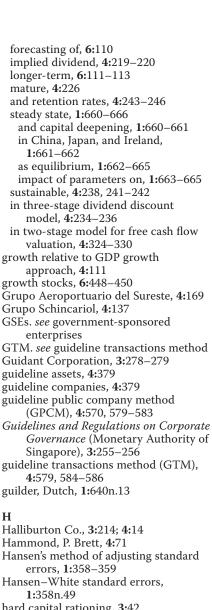
I-42 Index

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, 2:46-48 and DuPont analysis, 2:381-382 in private company valuation, 4:556, 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, residual income model for valuation, 4:503-504 Google Translate app, 1:246 Gordon, Myron, 3:136 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, 4:68-69 examples, **4:**212–217 expected rate of return from, 4:224-225 future dividend growth pattern, 4:209 implied dividend growth rate, 4:219-220 justified P/B from, 4:422 justified P/E from, 4:222-224, 395 with negative growth, 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, 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 - 65long-term, 4:64-65 sovereign credit risk with, 6:433-436 stock returns and, 1:279 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., 4:60-63 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 GPCM. see guideline public company method GPI. see general price index GPs. see general partnerships GPTs. see general purpose technologies Graham, Benjamin, 3:136; 4:20-21, 382 grains, 6:194, 201-202 Granger, Clive W. J., 1:486 grant date, 2:107 granularity, of sensitivity risk measures, **6:**349–350 great moderation, 6:399 Great Plains Energy, 4:252 Great Recession, 5:45-46. see also global financial crisis (2007-2009) Greece average hours worked, 1:646 default-free government bonds, 6:425 labor force participation rate, 1:643, 645 OECD Principles, 3:256n.18 population growth, 1:642 sovereign credit risk, 6:435 Greek debt crisis, 5:273 Greeks (option Greeks), 5:420-429 about, 5:377 delta, 5:420-423 gamma, 5:423-426 rho, 5:428-429 theta, 5:426-427 vega, **5:**427–428 greenmail, 3:163, 282n.2, 296 Greenspan, Alan, 1:540; 6:447 GRI. see Global Reporting Initiative Grinold, Richard, 6:472 grocery segment, gross margins in, 4:118-119 gross domestic product (GDP), 6:94-95 and consumption, 6:441-442 default-free interest rates and growth in, **6:**392, 393

in equity risk premium estimate, 4:69-71government bond spread, total return and growth in, 6:420-421 growth rate of, 4:211-212 growth relative to GDP growth approach, 4:111 industrial product demand and growth in, 6:194 in macroeconomic factor models, **6:**286-288 nominal, 1:487; 4:212 potential, 1:620, 628-633 real, **1:**524–525, 620–623 real per capita, 1:620-623, 676-677 and real risk-free rate, 6:395 gross income multiplier, 6:32-33 gross internal rate of return, 6:160 gross leases, 6:19, 20, 93 Grossman–Stiglitz paradox, 4:6 gross margin and cost of goods sold, 4:118-119 Intel Corporation, 1:451-453 gross margin index (GMI), 2:307 gross unrealized losses, 2:248-249 groundwater contamination lawsuits, **2:**351-352 group decision making, 1:129 Groupe Eurotunnel, 3:142 Group of Ten. see G-10 Group of Twenty. see G-20 Groupon, 2:313, 349-350; 4:428 group research, 1:129, 132 growth. see also Gordon growth model (GGM) constant-growth FCFE model, 4:289 constant-growth FCFF model, 4:288-289 dividend, 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, 4:313, 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 rates compound annual, 4:157, 158 in dividend discount valuation, 4:241-247





Halliburton Co., 3:214; 4:14 Hammond, P. Brett, 4:71 Hansen-White standard errors, 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 Hart-Scott-Rodino Antitrust Improvements Act (1976), 3:299 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, government subsidies and regulation for, 1:721-722 US cost of, 2:95-97

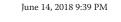
health care real estate investment trusts, **6:**91, 93–95 health insurance policies, 2:273 HealthSouth, 3:210 hedge fund managers, market risk management by, **6:**357–358 hedge ratios in one-period binomial model, 5:381, 383 in two-period binomial model, 5:388 hedgers, in commodity markets, 6:206 BSM model and, 5:406-407 derivatives as, 2:258 as investment industry intermediaries, 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

acquisitions, 3:286

hidden value, from mergers and

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, 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, 4:388 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, 4:65-68 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 multiple, 4:208-210 DDM for single, **4:**207–208 hold-out sample, 1:391n.86 Ho-Lee model, **5:**42-44 Home Depot, 1:500-501, 523-526; 3:208 homemade leverage, 3:135n.9 home prices, demand for multi-family



properties and, 6:21

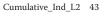
5:248–249

349, 481

homogeneity, in securitized debt,

homoskedasticity assumption, 1:290,

Honda Motor Company, 4:409-410





I-44 Index

Hongkong Land, 6:96 Hong Kong Monetary Authority, 2:218 Hong Kong SAR active return and weights for equities, **6:**500, 503, 504 Basel Committee membership, 2:218 equity REITs, 6:83 Financial Stability Board, 2:219 FX market hours, 1:542 publicly traded real estate equities, **6:**81 real estate equities market, 6:82 horizontal merger, 3:280 Hormel Foods, 4:202-204 hospitality properties, 6:12 hostile mergers, 3:282, 292-293 hostile transactions, 3:280 hotel real estate investment trusts, 6:91, 93 - 95hot issue securities, 1:84 hours worked, average, 1:646 HP. see Hewlett-Packard Company HSBC Holdings plc, 2:220 asset quality, 2:225-228 capital position, 2:222-223 earnings, **2:**229–232 liquidity position, 2:234-236 market risk, 2:236-238 HTM. see held-to-maturity securities Huamao Property Holdings, Ltd., 2:26 Hua Xia Bank Company Limited, 2:26 hubris hypothesis, 3:318-319 human capital, 1:639, 646-647; 4:415 Hungary, 3:256n.18 hurdle rates, **6:**154, 365 hybrid approach modeling operating costs, 4:114 modeling revenue, 4:111, 112 hybrid REITs, 6:82 hyperinflationary economies, 2:172-176 hyperparameters, neural network, 1:386 hypothesis testing with linear regression model for one variable, 1:297-305 bias in inflation forecasts, 1:303-305 company value and returns to invested capital, 1:301-303 estimating beta of stock, 1:299-301 with multiple linear regression model, 1:341-343 hypothetical scenarios, 6:346-347 IAIS. see International Association of **Insurance Supervisors**

I
IAIS. see International Association of
Insurance Supervisors
IAS19 accounting rule, 6:423
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, 1:598–599; 3:256n.18
ICT capital. see information, computer,
and telecommunications capital
idea generation, in capital budgeting
process, 3:6

The Identification of Contributory Assets and the Calculation of Economic Rents (Appraisal Foundation), **4:**578, 596 idle cash, share repurchase with, 3:164-165 IEA. see International Energy Agency IFRS. see International Financial Reporting Standards IGBVT. see International Glossary of **Business Valuation Terms** IKEA, 4:556 illegal activity, disclosure of, 1:104 illiquidity, of commercial real estate, **6:**453–454 illiquidity discounts, 4:30 Ilmanen, Antti, 6:220-221 IMF. see International Monetary Fund Immelt, Jeffrey, 3:149 impairment of available-for-sale assets, 2:16-17 for debt securities, 2:15-17 at Deutsche Bank, 2:16-17 for equity securities, 2:15-17 and financial reporting quality, **2:**303-304 goodwill for AOL-Time Warner merger, 4:584 in consolidation process, 2:46-48 and DuPont analysis, 2:381-382 in private company valuation, 4:556, 559-560 and residual income models, 4:495 for held-to-maturity investments, 2:16 and intercorporate investment in associates, 2:31 and intercorporate investments in financial assets, 2:15-19 for loans, 2:229 Impairment of Assets (IAS 36), 4:559n.5-6 impairment of capital rule, 3:153 implementation costs, of regulation, 1:718-719 implementation shortfall algorithms, **6:**534 implied bid price, of currency, 1:545-546 implied dividend growth rate, 4:219-220 implied risk-neutral probability, 5:43 implied volatility, **5**:85, 429-433 about, 5:377 from 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 inadequate compliance procedures, 1:124 inadequate supervision, 1:124-125 incentives creating appropriate incentive

capitalized income method, 4:570 comprehensive, 4:516, 521-525 from consolidated affiliates, 4:132 covered calls for generating, 5:460-461 economic, 3:58-61 in equity risk premium estimate, 4:70 gross income multiplier, 6:32-33 interest, 4:126-127 net adjusting, 4:302-306 in capital budgeting, 3:56 and FCFE, 4:302-306 and FCFF, 1:280-281, 284-285; **4:**289–293, 302–306 on foreign currency financial statements, 2:182-183 interest, 2:237, 258 and mistakes in forecasting free cash flows, **4:**316–317 and operating cash flow, 2:314-318 and other comprehensive income, **2:**304–305 and two-stage model for free cash flows, 4:326-328 net interest, 2:237, 258 nonoperating, 2:99-101 operating net, **6:**27–33, 36, 43, 48, 99–100, 106 normalized, 4:129 overstatement/non-sustainability of, reclassifying components of, 2:99-101 other comprehensive, 4:521–525 accumulated, 4:521 as dirty surplus item, 4:505n.12 fair value through, 2:20-22 and net, 2:304-305 and periodic pension cost, 2:82-83, 98 and residual income, 4:521-525 persistence of, 4:511 from private real estate investments, **6:**13, 41 pro forma, **2:**313 from publicly traded real estate securities, 6:82, 85, 89 rental, 6:452 residual, 4:493-497 (see also residual income model; residual income valuation) calculation, 4:493-495 for capital budgeting, 3:63-64 commercial implementations, **4:**496-497 continuing residual income, 4:507 determinants of, 4:505-506 equity valuation with, 4:495-496 per-share, 4:498-499 in present value models, 4:205-206 returns as, 4:205-206 sales comparison approach to valuing, **6:**25–27 shareholders preference for capital gains vs., 3:152 sustainability of, 2:230 income approach to private company valuation, 4:562, 569-578 capitalized cash flow method, 4:575-577 and discount rate for private company,

4:571-574

June 14, 2018 9:39 PM

Cumulative_Ind_L2 44

structures, 1:122

accounting, 3:59-61

from affiliates, 4:132

for mergers and acquisitions, 3:285

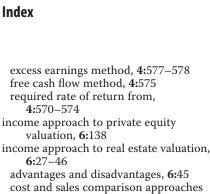
income. see also income measures; net

incident-reporting procedures, 1:109

operating income (NOI)

capital gains vs. current, 3:152





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

discounted cash flow method, **6:**33–4 advanced, **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

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

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

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 I(B)]

application of the standard, **1:**36–42 in case studies, **1:**215, 219 compliance procedures, **1:**35–36 guidance, **1:**30–35

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:**106 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**:436, 448

and lagged dependent variables, 1:355–356

linear regression model with one, 1:286–289, 305–308 measurement errors with, 1:372–376

measurement errors with, 1:3/2–3/ 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 in

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

Index-Iinked bonds, **6:**396–401 India - Rasal Committee membership (

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, 4:400

industrial conglomerates, 4:400 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, **4**:150–151 industry experts, **1**:59–60 industry factors, **4**:581; **6**:293 industry life cycle, **3**:287–288

industry life cycle, 3:267–266 industry overview, 4:170–171 industry sales, 4:145–147

industry structure, as context for valuation, **4:**12–13









I-46 Index

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 and due diligence for equity REITs, **6:**90 and equity risk premium, 4:70 and exchange rates, 1:565-566 and Fed Model, 4:408 and foreign currency financial 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, **6:**286–288 and money supply 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 and P/E, 4:410-412 and private real estate equity investments, **6:**13, 15–16 and publicly traded real estate securities, 6:82 and real exchange rates, 1:557 risk premium for uncertainty in, 6:402-403 sales projection effects, 4:145-150 company sales, **4:**147-149 industry sales, 4:145-147 input costs at Carrefour SA, 4:149-150 and single-stage model of valuation, **4:**320-321 and slope of yield curves, 5:15-16 and S&P 500 Index returns, 1:271-272, 294 and Taylor rule, 6:407 and T-bill returns conditional heteroskedasticity of, 1:353, 355 Fisher effect, 1:373-376, 484 serial correlation of, 1:359 and US Consumer Price Index 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

multiperiod forecast, 1:454-456 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 intentional 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, 1:57, 64 material nonpublic (see material nonpublic 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 Notes to Financial Statements, **2:**346–347, 350–355 segment, 2:241 verification of outside, 1:47 information, computer, and telecommunications (ICT) capital, 1:639, 647-649 informational asymmetry, 1:706 informational friction, 1:706 information-based manipulation, 1:68, 72 - 73

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, 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, Institutional Shareholder Services (ISS),

Cumulative_Ind_L2 46 June 14, 2018 9:39 PM

and expected active returns, 6:500-501

3:262

information coefficient (IC)

in correlation triangle, 6:489





guidance, 1:68-69

insurance
casualty, 2: 265
CDS vs., 5: 276–277 health insurance policies, 2: 273
liability, 2:265
life, 2: 273; 6: 360
portfolio, 6: 364
property insurance policies, 2: 266 protective puts as, 5: 464–465
insurance companies, 2:217; 3:300. see
also specific types
insurance company analyses, 2:264–280
life and health insurance companies, 2: 273–280
capitalization, 2: 280
earnings characteristics, 2: 276–277
investment returns, 2:278–279
liquidity, 2: 279–280 products and distributions,
2:273–276
property and casualty insurance
companies, 2: 265–273
capitalization, 2: 273 earnings characteristics, 2: 266–270
investment returns, 2:270–270
liquidity, 2: 271–273
products and distributions, 2:265-266
Insurance Theory, 6: 213–214 insurers, market risk management by,
6: 359–360
intangible assets
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
Intangible Assets (IAS 38), 4: 559n.5, 578n.29
integration of financial statement
analysis, 2: 371–414
in financial statement analysis
framework, 2: 371–372 long-term equity investment case
study, 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 case study,
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
practice problems, 2: 408–412 solutions to problems, 2: 413–414
integrity, 1: 55, 169, 717
Integrity of Capital Markets [Standard of
Professional Conduct II], 1:56–73
Market Manipulation [Standard II(B)], 1:68–73
application of the standard, 1:69–73

text of, 1:16, 68 Material Nonpublic Information [Standard ÎI(A)], 1:56-67 application of the standard, 1:63-67 compliance procedures, 1:60-63 guidance, 1:56-60 text of, 1:16, 56 Intel Corporation functional currency, 2:131 initial public offering, 3:203-204 market expectations and stock price, 4:10-11 predicting gross margins for, 1:451-453 sales, 1:447, 487 intellectual property, 1:715; 3:210 intensity-based default rate models, **5:**216 interbank market, bid-offer currency prices from, 1:541-543 Interco/Canadaco case study, 2:157–171 Intercontinental Exchange (İCE), 5:324n.9; 6:205, 207 intercorporate investments, 2:7-73 about, 2:8 in associates, 2:23-35 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 ROE, 2:383 and sale of inventory, 2:32-34 and transactions with associates, 2:31-34 business combinations, 2:35-56 acquisition method, 2:38-42 comparability issues, 2:55-56 consolidation process, 2:42-48 financial statement presentation after, 2:48-51 IFRS and US GAAP comparability issues, **2:**55–56 pooling of interests and purchase methods, 2:37 special purpose entities, 2:51-55 types of, 2:35-36 corporate investment categories, **2:**9–10 in financial assets, 2:10-22 available-for-sale investments, **2:**12-14 classification and measurement, **2:**20-22 fair value through profit or loss, 2:11-13 held-to-maturity investments, 2:10-11 impairments, 2:15-19 loans and receivables, 2:12-14 reclassification of investments, **2:**14-15, 22

practice problems, 2:58-68 solutions to problems, 2:69-73 interdepartmental communications, 1:61 interdepartmental referral arrangements, disclosure of, 1:163 interdependencies, regulatory, **1:**706–708 interest accrued, 5:333, 334 carried, 4:587n.37; 6:153 effective, 2:11n.4 FCFF and after-tax, 4:290 under GAAP and IFRS, 4:293-294 interest coverage ratio, 2:406 interest expense, 4:127-128 interest income, 4:126-127 interest-only loans, 6:62 interest paid, 4:432 interest rate caps, 5:416 interest rate floors, 5:416 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 interest rate futures in derivatives strategies, 5:448-450 pricing and valuation of, 5:324-325 interest rate options binomial option valuation model for, **5:**399-401 Black option valuation model for, **5:**414–417 deferred payoffs for, 5:400n.8 rho for, 5:429n.17 interest rate parity covered with currency forwards and futures, 5.338 equation, 1:550 in exchange rate determination, 1:558 and international parity conditions, in prediction of spot rates, 1:560-564 forward rate parity, 1:560–564 international, 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 and purchasing power parity, 1:564-567 relationships among conditions, 1:570-572 uncovered interest rate parity, 1:558-560 real, 1:567-570 uncovered 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



I-48 Index

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 influences 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 vield curve, 5:129 and FRA payments, 5:326-328 and inflation, 1:352-354, 522 mean reversion of, 5:39-40 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, 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, callable bonds with, 5:137-140, 142-145 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, 140-145 putable bonds without, 5:130-132 in tests of bond analytics, 5:178 and yield curve volatility, 5:50 interest received, 4:432 interests business minority, 4:441n.53 noncontrolling, 2:43-46 pooling of interests accounting method, 2:37, 42n.29

internal controls, 3:242 internal growth, in forecasting of growth 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 leveraged 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 - 157Employee 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, 3:244n.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, 2:313 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

Cumulative_Ind_L2 48 June 14, 2018 9:39 PM

uniting of interests accounting

Interests in Joint Ventures (IAS 31), 2:9

method, 2:37

client, 1:78





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, International Energy Agency (IEA), 4:15n. International Federation of Accountants, 4:18 International Financial Reporting Standards (IFRS) on accounting for derivatives, 2:258 adjusted earnings, 4:386 on asset classification, 2:245 available-for-sale investments, 4:517 book value of equity, 4:504-505, 515 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, 4:434 investment property, 6:98-99 investments in associates, 2:23, 27, 31, investments in financial assets, 2:10-22 joint ventures, 2:23 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), International Valuation Standards Council (IVSC), 4:561, 595, 596; 6:56n.17 internet, regulation of commerce and, Internet Explorer, 3:213 Internet of Things, 1:243 interpolated spread. see I-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 and discount rate, 4:57 of equities, 4:6-8estimates 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, **4**60

inventory(-ies) average cost of, 2:152 in financial statements, 2:152 projecting future, 4:132 sale of, 2:32-34 Theory 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, 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_L2 49 June 14, 2018 9:39 PM

from residual income model,

4:497-500, 505







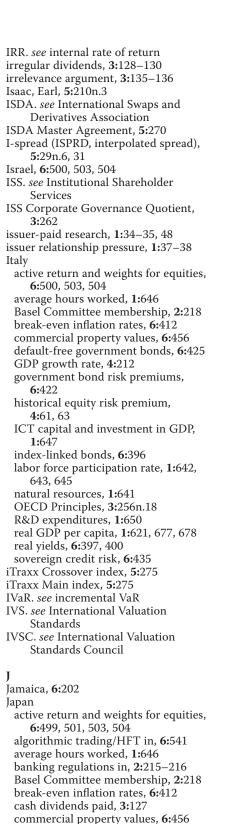
I-50 Index

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, 1:576 execution of, 6:255 independence of, 6:513-514 market-based factors in, 4:460-461investment horizon, 6:410. see also scenario analysis investment industry, ethics in, 1:11-15 investment management fintech applications, 1:249-253 algorithmic trading, 1:253 distributed ledger technology, 1:256-257 natural language processing, 1:253-254 risk analysis, 1:252-253 robo-advisory services, 1:250-252 text analytics, 1:249 and portfolio management, 6:248-250 investment objectives changes in, 1:233-234 for covered call strategies, 5:459-464 defined, 6:251 establishing, 1:77 in IPSs, 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 conditions for portfolio revision in, **6:**254-255 creating, **6:**251, 253–254 defined, **6:**248 developing, 1:91 investor constraints in, 6:261-264 investor objectives in, 6:257-261 requirements and limitations of, 1:95-96 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:**41, 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, 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 320), 2:10, 22n.12 Investments-Equity Method and Joint Ventures (ASC 323), 2:10 Investments in Associates and Joint Ventures (IAS 28), 2:9, 10, 23 investment strategy(-ies) comparing, 6:505 for equities, 6:448-451, 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, 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 investor sentiment, asset values and, 6:383 inward-oriented development strategies, 1:680-681 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



commodity exchanges, 6:207

Dojima Rice Exchange, 6:205

economic growth, 1:652-654

education spending, 1:624

exchange rates, 1:579, 588

dividend payouts, 3:178

dividend policy, 4:201

equity REITs, 6:83

default-free yield curves in, 6:424-425

ex post equity risk premium, 6:445 GDP growth rate, 4:212 government bond market, 5:25 government bond risk premiums, **6:**422 historical equity risk premium, 4:61-63 ICT capital and investment in GDP, **1:**647, 648 labor and total factor productivity, labor force participation rate, 1:643 labor supply, **1:**641 money supply growth and inflation, 1:264, 269, 294, 296 month-of-the year effects on stock returns, 1:345-346 natural resources, 1:639, 640 OECD Principles, 3:256n.18 openness of economy, 1:680 population growth, 1:642 portfolio weights, 6:475 potential GDP, 1:631 private real estate valuation, 6:57 publicly traded real estate equities, **6:**81 R&D expenditures, 1:650 real default-free interest rates, 6:393 real GDP per capita and growth in real GDP per capita, 1:677, 678 and real GDP growth, 1:621, 622, 626, 627 real yields, 6:396, 397, 400 revenue analysis, 4:109, 110 reverse stock splits, 3:133 share repurchases, 3:161 steady state of growth, 1:661-662 swap market, 5:25 technology transfer, 1:676 trust banks, 2:130 yield curve factors for government securities, **5:**49–50 yield curve movements, 5:46 Japanese yen and Canadian dollar, 1:283-284 correlation of exchange rate returns, 1:275-277 currency code, 1:605 and current account surplus, 1:579 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 and monetary policy, 1:588 yen carry trades, 1:579-580 Jarrow, Robert, 5:216 Java, 6:202 Java programming language, 1:249 JBS, 6:195 J curve effect, **6:**152 Jensen, M., **6:**142n.3-4 Jensen, Michael, 3:105 Jensen's free cash flow hypothesis, **6:**142

jewelry, **6:**195 job creation, REITs and, 6:94-95 Johnson & Johnson, 1:501-502; 3:278-279; 4:239-240 Joint Arrangements (IFRS 11), 2:9, 10, 23n.15 Joint Forum, 2:220 jointly controlled entities, 2:25 joint products, regulation of, 1:721 joint ventures accounting treatments for, 2:9-10 defined, 2:23 intercorporate investment in, 2:23-35 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 Jones Model, 2:314 J.P. Morgan Chase & Company, 3:174; 4:96, 101 JP Morgan Bond fund, **6:**479, 482 JSE All Share Index, 1:485 justice theories, 3:218-219 justified P/B, **4:**422–423, 505–506 justified P/CF, **4:**435–436 justified P/E, 4:222-224, 395-397 justified price multiples, 4:382 justified P/S, **4:**429–430 just say no defense, **3:**296

Kahn, Jeremy, 2:334 Kaldor, Nicholas, 6:216 Kansas City Southern Preferred, 4:217 Kant, Immanuel, 3:217 Kantian ethics, 3:217 Kaupthing, 1:598 Kenya coffee harvesting, 6:202 natural resources, 1:641 real GDP per capita, 1:622, 623, key man clause, 6:154 Keynes, John M., 6:213, 220 key rate duration(s) for bonds with embedded options, **5:**156–158 and yield curve risk, 5:51, 52 Keystone XL pipeline, **6:**198 Kimberly-Clark, 4:120n.2, 121 KKR. see Kohlberg Kravis Roberts K-means algorithm, 1:388-389 Knight, Phil, 3:211 Knight Capital, 6:546 knowingly (term), 1:43 knowledge of the law, failure to maintain knowledge, 1:29

Cumulative_Ind_L2 51 June 14, 2018 9:39 PM







I-52 Index

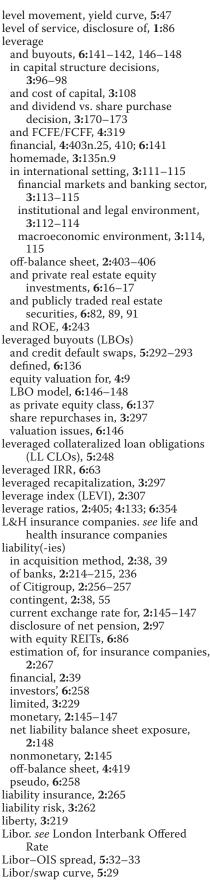
Knowledge of the Law [Standard I(A)] application of the standard, 1:27–29 in case studies, 1:214–215	LASSO regression. <i>see</i> least absolute shrinkage and selection operator regression	types of, 1 :245–246, 381–382 vocabulary, 1 :381 reinforcement, 1 :381
compliance procedures, 1: 26–27 CFA members and candidates, 1: 26	last-in, first-out (LIFO) valuation method	supervised algorithms, 1: 383–388
dissociation, 1: 26	balance sheet adjustments for, 4: 525	defined, 1: 245–246, 381
distribution area laws, 1: 26	comparisons of companies using FIFO	training in, 1: 390–391
firms, 1: 26–27	and, 4: 390, 419	unsupervised
legal counsel, 1:26	on foreign currency financial	algorithms, 1: 388–390
guidance, 1: 21–25	statements, 2:152	defined, 1: 246, 381
Code/Standards and applicable law,	latency, 6: 536–539	leases
1:22–23 investment products and applicable	Latin America. <i>see also specific countries</i> development strategies, 1: 680, 681	and due diligence for equity REITs, 6: 90 gross, 6: 19, 20, 93
law, 1:23–25	non-convergence traps, 1: 675	income from existing, 6: 41
violations by others, participation or	real GDP growth and real GDP per	for industrial properties, 6: 20, 92
association with, 1:23	capita, 1: 621–623	international, 6: 56–57
text of, 1: 16, 21	law(s). see also applicable law	for multi-family properties, 6: 21, 93
known errors, noncorrection of, 1:48	administrative, 1:703	net, 6: 19, 20, 92, 93
Kodak, 4:167, 168	banking, 1: 714	for office properties, 6: 19–20, 92
Kohlberg Kravis Roberts (KKR), 6: 136, 141	bankruptcy, 1: 714 business, 3: 210–211	operating, 2: 343, 403–406 percentage, 6: 20
Kolb, Robert W., 6: 214	civil, 3: 113	renewal of, 6: 41–42
Koninklijke Philips Electronics N.V.,	common, 3: 113	for retail properties, 6: 20–21, 91–92
4: 434	company, 1: 713	and SPEs, 2: 52–53
Korea. see South Korea	competition, 1:714	for storage facilities, 6: 93
Korean won, 1:605	contract, 1: 713–714; 3: 210	structure of, 6: 37–40
krona, Swedish, 1: 275–277, 605	distribution area, 1:26	for warehouse properties, 6: 20
kth order autocorrelation, of time-series data, 1: 449	insolvency, 1: 714 knowledge of (<i>see</i> Knowledge of the	least absolute shrinkage and selection
Kyoto Protocol, 3:260	Law [Standard I(A)])	operator (LASSO) regression, 1: 384 least common multiple of lives
1,000 1100001, 0,200	more strict, 1: 22	approach, 3: 39–40
L	procedural, 1:705	leaving an employer, 1: 106–107, 115
labor	religious tenets as basis for, 1:28-29	ledgers
capital-to-labor ratio, 1: 635–636, 678	restrictive takeover, 3: 294–295	adding transactions to, 1:255
in Cobb–Douglas production function, 1:634	rule of law in developing countries, 1:624	distributed ledger technology, 1:239,
in growth accounting equation,	securities, 3: 210, 302–303	241, 253–257 legal counsel, 1: 26; 3: 245
1:637–638	substantive, 1: 705	legal environment, 3: 112–114; 6: 263
in production function, 1: 639	tax, 1: 714	legal lists of equity, 3: 137
quality of, 1: 646–647	tort, 3: 210	legal proceedings, risk information from,
regulations about, 1:725	law of one price	2: 351–355
sweatshop, 3: 211–212, 214	and arbitrage-free valuation, 5: 77, 308,	legal restrictions
and total factor productivity, 1:651–652	377 and method of comparables,	on dividend policy, 3: 153 on takeovers, 3: 294–295
"labor augmenting" technical change,	4:380–381	legal risk, 3: 261
1:660n.21, 666n.23	and purchasing power parity, 1:564	legal system
labor force	Lay, Ken, 3: 216	of developing countries, 1:624
average hours worked by, 1:646	layering, 6: 544	and framework of IOSCO, 1:713-714
and labor supply, 1:641	layer method, 6:39–40	and regulation of commerce, 1: 715
participation rate of, 1:642–643	LBO model, 6: 146–148	legislative risk, 3: 260–261
and steady state of growth equilibrium, 1: 664, 665	LBOs. see leveraged buyouts LCR. see Liquidity Coverage Ratio	Lehman Brothers collapse of, 1: 722; 6: 397, 401, 415, 431
labor supply, 1: 641–646	leadership, ethical behavior and, 3: 216,	hidden debt at, 5: 216
average hours worked, 1:646	220	off-balance-sheet items at, 2:240
labor force participation, 1:642-643	leading dividend yield, 4: 437	Leibowitz, Martin L., 4: 71
net migration, 1: 644–645	leading P/E, 4 :222–223, 384	lender of last resort financing, 1: 723
population growth, 1:641–642	lead time, for real estate equity	lending direct vs. indirect, 6: 6
La Charte de l'Expertise en Evaluation Immobilière, 6: 57	investments, 6: 15 learning	mortgage lending value, 6: 24
lack of control discounts, 4: 590	deep, 1: 246	Lenovo, 3:287
lack of marketability discounts, 4:30,	ensemble, 1: 385–386	less strict (LS) countries, 1:24–25
591-592	machine, 1: 378–391	letter of intent, 6: 55
Ladbrokes, 1:281–282	algorithms, 1: 383–390	level, default-free yield curve, 6: 415–417
lagged dependent variables, 1:355–356,	analytical investment applications,	Level 1 inputs, in fair value hierarchy,
373 lagged independent variables, 1: 436, 448	1:245–246 and data analytics focuses, 1:379–380	2:229–230 Level 2 inputs, in fair value hierarchy,
Landsbanki, 1:598	defined, 1:245, 380	2:229–230
large-cap stocks, 6: 449–450	for risk analysis, 1: 253	Level 3 inputs, in fair value hierarchy,
Larsen & Toubro Ltd, 4: 73–75, 97, 102	supervised, 1: 390–391	2: 229–230

Cumulative_Ind_L2 52 June 14, 2018 9:39 PM





I-53 Index



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, firstout 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, 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 linear regression model, 1:285-311. 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, 1:303-305 company value and returns to invested capital, 1:301-303 estimating beta of stock, 1:299-301 limitations, 1:311 with one independent variable, 1:286-289 prediction intervals, 1:308-311 regression with one independent variable, 1:286-289, 305-308 standard error of estimate, 1:292-295 linear trend models (time-series analysis), 1:437-440 inflation and Consumer Price Index, 1:438-440 sales at Starbucks, 1:441-444 linear trends, 1:437 line costs, at WorldCom, 2:328 LinkedIn, 4:169 links, neural network, 1:386 Lintner, John, 3:136, 156 LIQ factor, 4:83 liquefied natural gas (LNG), 6:193 liquidating dividends, 3:130, 153 liquidation, 3:320; 6:143, 150 liquidation value, 4:8

liquidity asset, **6:**262 bid-offer spread and, 1:542-543, 554 of commercial real estate, 6:453-454 illiquidity discounts, 4:30 as investor constraint, 6:262 life and health insurance companies, **2:**279–280 marketability vs., 4:84 of private company stock, 4:558 of private equity investments, 6:140, 156 property and casualty insurance companies, 2:271-273 requirements related to, 2:219 of swap markets, 5:25 swap spreads for measuring, 5:29 Z-spread for measuring, 5:30 liquidity aggregation, 6:537, 541 liquidity and credit crisis, 6:411, 412 Liquidity Coverage Ratio (LCR), 2:232, 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 Litterman, 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 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 lobbying, 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

Cumulative_Ind_L2 53

leveraged IRR, 6:63

leverage ratios, 2:405; 4:133; 6:354

liability risk, 3:262

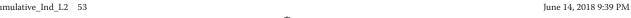
Libor-OIS spread, 5:32-33

Libya, 6:198, 216

licensing, revenue from, 2:325-326

of real estate investments, 6:8, 10, 16, 85

lockout period, 5:123-124, 169









I-54 Index

logit models, 1:377 log-linear trend models, for time-series analysis, 1:440-446 log-log regression model, 1:330 lognormal distribution, in BSM model, 5:402 London, England, 1:542, 543 London Interbank Offered Rate (Libor) and CDS spread, 5:271 and credit spread, 5:281 floating rates based on, 5:24-25 for forward rates, 1:549-551 FRA payments and interest on, **5:**327–328 and interest rate forwards, 5:324-325 and mark-to-market value of forward contracts, 1:554 and profit from basis trade, 5:291-292 and trader collusion, 6:544 and valuation of capped floaters, **5:**161–162, 164–165 and valuation of floored floaters, 5:164-166 London Metals Exchange, 6:207 London Stock Exchange, 6:209 long (term), 5:272 Long, Austin, 6:161 long calls, strategies using, 5:492 longer-term growth rates, 6:111–113 long forward positions cash flows for offsetting, 5:337, 341 valuation of, 5:317-318, 320-321 long positions adding short legs to, 5:476-478 in assets, **5:**454, 468 market value of, 5:310 synthetic, 5:454-455 long-run exchange rate movements, 1:557 long/short trade, CDS, 5:288-289 long straddles, 5:126, 483, 491–492 long-term assets, projections of, 4:133 long-term bonds, stock returns and, 1:279 long-term equity investment case study, **2:**373–402 conclusions and recommendations, **2:**401-402 data analysis, 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 data collection, 2:373 data processing, 2:374 follow-up, 2:402 purpose for analysis, 2:373 long-term financial forecasting, 4:163-169 assumptions in, 4:168-169 historical valuation multiples in, 4:166-167 normalized revenue case study, **4:**164-169

long-term framework for exchange rate determination, 1:556-572 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 terminology, 1:556-557 long-term government bonds, 4:64-65 long-term growth, 4:168 look-ahead bias, 4:461 lookback period, 6:322 L'Oréal IFRS adoption by, 2:375 and Nestlé market capitalization, 2:399-401 Nestlé's equity investment in, 2:375 operational cost structure of, **4:**120-122 loss(es) actuarial, 2:80, 83-85 allowance and provision for loan, **2:**249-252 with CDS, 5:285, 286 with collars, 5:471-472 credit, 2:253 disclosure of, 2:138-143 expected, 5:205, 279–280 at expiration for covered calls, 5:462-464 for protective puts, 5:466-467 fair value through, 2:11-13, 20-22 from foreign currency transactions, **2:**135–143 gross unrealized, 2:248-249 impairment, 2:303-304 on income statement, 2:136-137 and loss adjustment expense ratio, **2:**269 maximum 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 monetizing, **5:**285–286 on private equity investments, 6:157 purchasing power, 2:173 as quality of earnings indicators, 4:19 remeasurement, 2:152 residual, 3:104 on short puts, 5:469 loss given default, 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 loss rates, credit spread and, 6:428, 430 loss reserves, 2:267-268

Louis Dreyfus, 6:216 low earnings, trailing P/E with, **4:**391–392 low-quality earnings defined, 2:290, 310 external indicators of, 2:319 and financial reporting quality, 2:290-291 low-quality financial reporting, **2:**291–293, 299–300 low-yield currencies, carry trades with, 1:572-573 Loyalty, Prudence, and Care [Standard III(A)], **1:**73–81 application of the standard, 1:78-81 in case studies, 1:227 compliance procedures, 1:77-78 client approval, 1:77 firm policies, 1:77-78 regular account information, 1:77 guidance, 1:73-77 client's portfolio, developing, 1:75–76 identifying actual investment client, 1:75 proxy voting policies, 1:76-77 soft commission policies, 1:76 understanding application of standard, **1:**74–75 text of, 1:17, 73 and trade allocation, 1:230 Loyalty [Standard IV(A)], 1:105–115 application of the standard, 1:109-115 in case studies, 1:217-219 compliance procedures, 1:109 competition policy, 1:109 employee classification, 1:109 incident-reporting procedures, 1:109 termination policy, 1:109 guidance, 1:105-109 employer responsibilities, 1:106 independent practice, 1:106 leaving employers, 1:106-107 nature of employment, 1:108-109 social media, 1:108 whistleblowing, 1:108 text of, 1:17, 105 loyalty to clients, 1:81 LPs. see limited partnerships LS countries. see less strict countries LTV. see loan-to-value ratio Luxembourg, 2:218; 3:256n.18; 6:142, LWC. see SPDR Bloomberg Barclays Long-Term Corporate Bond ETF

lot allocations, minimum, 1:88-89

M
McAfee, 2:131
McDonald's Corp, 3:143; 4:221; 6:216
McGrady, C., 6:159n.13
machine learning (ML), 1:378–391
algorithms, 1:383–390
analytical investment applications,
1:245–246
and data analytics focuses, 1:379–380
defined, 1:245, 380
for risk analysis, 1:253

Cumulative_Ind_L2 54 June 14, 2018 9:39 PM

loss severity, 5:203







supervised, 1:390-391 algorithms, 1:383-388 defined, 1:245-246, 381 training in, **1:**390–391 types of, 1:245–246, 381–382 unsupervised algorithms, **1:**388–390 defined, 1:246, 381 vocabulary, 1:381 McKenzie, Richard, Jr., 1:229-231 McKenzie Walker Investment Management, Inc., 1:229-231 McKinnell, Hank, 3:208-209 macroeconomic environment, leverage in, 3:114, 115 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 structure, 6:286-289 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, 1:596 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, 1:252 and equity REITs, 6:86, 91 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, 1:31, 274-275; 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 (MD&A) disclosure of sales growth in, **2:**186-187 disclosure of translation methods in, information about risk in, 2:355-357 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, 1:451-453; 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,

method based on forecasted fundamentals, 4:381-382 method of comparables, 4:379-381 momentum indicators, 4:451–456 relative strength indicators, **4:**453-456 scaled earnings surprise, 4:451 and unexpected earnings, 4:451-453 multiple indicators in, 4:459-463 practice problems, 4:468–480 price multiples, 4:382–439 price to book value, 4:414-424 price to cash flow, 4:431–436 price to dividends and dividend yield, price to earnings ratio, 4:382-414 price to sales, **4:**425–431 solutions to problems, 4:481–489 market bubbles, 4:426; 6:53, 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, 4:9–11 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, 1:16, 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



4:446-447

4:440–446

4:449-450

issues with, 4:457-463

enterprise value to EBITDA,

enterprise value to sales, 4:447

price multiples vs., 4:447-448

harmonic mean, 4:457-459

international considerations,







I-56 Index

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 market participants, 6:205-208 spot and futures pricing, 6:208-213 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, 1:532 emerging (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 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, $\hat{1:}540-543$ 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, ESG risk exposures, 3:260 Massachusetts trust, 6:83 Masters, Blythe, 5:276n.13 material information, 1:57, 64 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, preventing personnel overlap, 1:62 proprietary trading procedures, 1:63 record maintenance, 1:62

material information defined, 1:57 mosaic theory, 1:58-59 nonpublic information defined, 1:58 social media, 1:59 text of, 1:16, 56 Mathonet, 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 gain for bear spreads, 5:475-476 for bull spreads, 5:474 for covered calls, 5:462, 463 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 **1:**341–342

mean regression sum of squares (MSR), mean reversion

in algorithmic and high-frequency trading, 6:536 of 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,

"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

356

Cumulative_Ind_L2 56 June 14, 2018 9:39 PM

investment research reports, 1:60

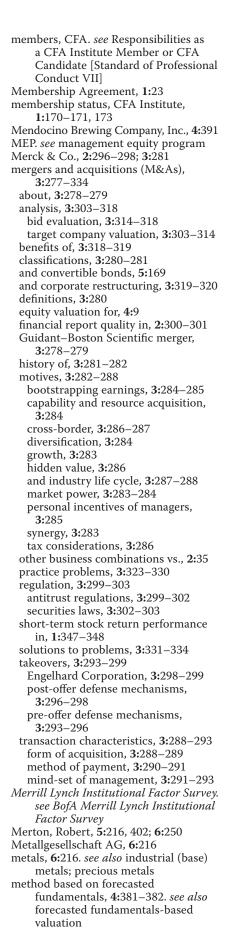
reporting systems, 1:62

industry experts, 1:59-60

guidance, 1:56-60







method of comparables. see also comparables-based valuation market-based valuation with, 4:379–381 in relative valuation models, 4:25, 26 MetLife, Inc., 2:274-277 Metrick, Andrew, 6:145n.a Mexican peso crisis (1994), 1:594 currency code, 1:605 and Swiss franc, 1:542 Mexico age distribution, 1:643 average hours worked, 1:646 Basel Committee membership, 2:218 convergence with advanced countries, 1:682 economic growth, 1:654 exports and foreign direct investment in, 1:681 ICT capital and investment in GDP, 1:647, 648 labor and total factor productivity, labor force participation rate, 1:643, labor supply, 1:641 natural resources, 1:640 OECD Principles, 3:256n.18 population growth, 1:642 R&D expenditures, 1:650 real GDP per capita, 1:622, 677 sovereign credit risk, 6:433 Meyer, Thomas, 6:158n.10 mezzanine financing, 6:137 Michelin, 4:400 Microsoft Corporation bundling of software products, 1:716; cannibalization factor of tablet computers for, **4:**153-163 dividends, 3:144, 145, 160 initial public offering, 3:203-204 NTM P/E, 4:392-393 required return on shares, 4:56-57, 81 - 83Microsoft Excel, 3:36 MicroStrategy, Inc., 2:324-326 mid-cap stocks, 6:449-450 Middle East. see also specific countries natural resources, 1:639 real GDP growth and real GDP per capita, **1:**621, 623 Middlesex Water Company, 4:213-216 MiFID. see Markets in Financial Instruments Directive migration, net, 1:644-645 Miller, M., 6:141n.2 Miller, Merton, 3:94. see also Modigliani and Miller theory mimicking, costs of, 3:142 minimum capital requirement, 2:219, 222, 280 minimum liquidity requirement, 2:219 minimum lot allocations, 1:88-89 minimum rent, for retail properties, 6:20 minimum value, convertible bond, **5:**170-171 Ministry of Land, Infrastructure, Transport and Tourism, 6:57

minority interest, 4:441n.53 minority interest expense, 4:132 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 mispricing, 4:7-8 misreporting, likelihood of, 2:306-309 Beneish model, 2:306-309 limitations of quantitative models, 2:309 variables for detecting misstatement, misrepresentation avoiding, 1:52 potential, 1:49 Misrepresentation [Standard I(C)], 1:43-53 application of the standard, 1:48-53 compliance procedures, 1:46-47 factual presentations, 1:46-47 maintaining webpages, 1:47 plagiarism policy, 1:47 qualification summary, 1:47 verifying outside information, 1:47 guidance, 1:43-46 impact on investment practice, 1:44 omissions, 1:45 performance reporting, 1:44-45 plagiarism, **1:**45–46 social media, 1:45 work completed for employer, 1:46 text of, 1:16, 43 mission, of banks, 2:239 misstatement, variables for detecting, Mitchell Hutchins Asset Management, 1:233-234 mixed offering, 3:290 mixed-use developments, 6:11 ML. see machine learning MNCs. see multinational corporations Mobil, 3:280 model(s) defined, **6:**318 manipulating inputs for, 1:72 in quantitatively oriented research, **1:**128–129 specification of, 1:363-376 and functional form, 1:364-372 principles of, **1:**363–364 testing, for autoregressive model, **1:**450–452 and time-series, 1:372-376 for time-series analysis, 1:489 understanding technical aspects of, 1:136-137 Model Request for Proposal, 1:129 model training, 1:390-391 modern portfolio theory (MPT) and active portfolio management, **6:**471–472 and multifactor models, 6:278-279 and portfolio perspective, 6:250 modified accelerated cost recovery system (MACRS), 3:31-33 modified country spread model, **6:**140n.1 modified duration, 5:151, 449n.2

Cumulative_Ind_L2 57 June 14, 2018 9:39 PM







I-58 Index

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, 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, 3:96-98 and regulatory impact on funding costs, 1:723 Molodovsky, Nicholas, 4:388n.15 Molodovsky effect, 4:388 Molson-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; 3:255-256 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 Investors 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 courage, 3:222-223 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 (MA[1] model), **1:**472–473 moving-average models of time-series analysis, 1:469-474 autoregressive, 1:480-481

forecasting time series with, 1:472-474 smoothing past values with, 1:470-472MPT. 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 APT 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

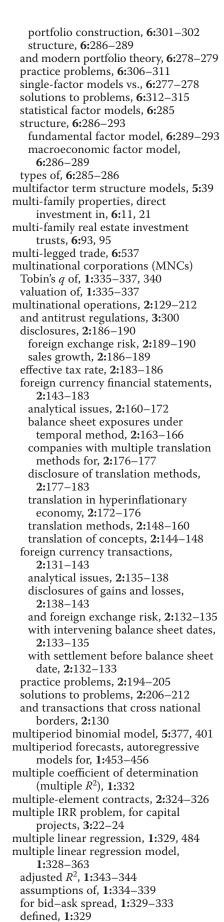
Cumulative_Ind_L2 58 June 14, 2018 9:39 PM

autoregressive models vs., 1:469,

472-474







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 \hat{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 valuing stock with, 4:226-228 multistage residual income model, 4:507-512 multistage time horizons, 6:263 Mundell-Fleming model, 1:585-587, 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 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, 4:560n.9 National Association of Real Estate Investment Trusts (NAREIT), 6:14 National Association of Securities **Dealers Automated Quotations** (NASDAQ), 1:329-333, 365-366, 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),

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 and 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_L2 59 June 14, 2018 9:39 PM









I-60 Index

Net App, **4:**444–445 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) 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 Netherlands active return and weights for equities, **6:**500, 503, 504 Basel 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 FCFE, 4:302-306 and FCFF, 1:280-281, 284-285; 4:289-293, 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 and 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:**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 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 of capital projects with real options, 3:53 defined, 3:10 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, 1:112 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,

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, 1:605 NextEra Energy, Inc., 4:224-225 next twelve month price-to-earnings ratio (NTM P/E), 4:392-393 NFA. see National Futures Association NI. see net income Nickles, Craig, 6:161 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 Nike, 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, 5:76-7 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

6:500, 503–505

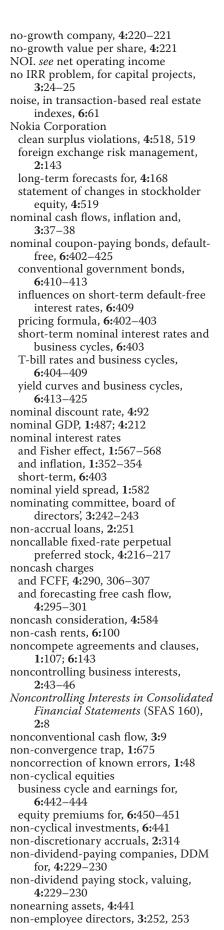
common law, 3:113



neural network, 1:386

funds, 6:156

no-fault divorce, for private equity



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, 1:639 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, non-traded assets, 4:76-79 NOPLAT. see net operating profit less adjusted taxes normal backwardation 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/Es, 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 CDS 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 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, 5:213, 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 - 355of 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 NTM P/E. see next twelve month priceto-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

Cumulative_Ind_L2 61 June 14, 2018 9:39 PM







I-62 Index

objectivity. see Independence and Objectivity [Standard I(B)] obligations, rights and, 3:218 obsolescence, **6:**47–48 Occidental Petroleum, 4:25 Occupational Safety and Health Administration (OSHA), 4:17 OCF. see operating cash flow OCI. see other comprehensive income OECD. see Organisation for Economic Co-Operation and Development off-balance sheet financing, 4:19 off-balance sheet leverage from operating leases case study, **2:**403–406 conclusions and recommendations, 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, 6:226-227. 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, 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), 6:137 120/20 long-short strategy, 6:501 Oniva.com, 3:203 online payment companies, 2:216

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, 2:398-399 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, data analysis, 2:404-406 data collection, 2:403 data processing, 2:404 follow-up, 2:406 purpose for analysis, 2:403 as off-balance sheet obligations, 2:343 operating margin, pre-tax assumptions about, in simulations, 1:525 of software companies, 1:521–522 of US building retailers, 1:524 operating profit and foreign currency gains/losses, **2:**136–137 of Nestlé, 2:398 on pro forma income statements, **4:**175–176 operating results, in Europa Venture Partners III case study, 6:162 operating risk, 3:261-262 operational risk, 3:226

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 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, **5:**473, 481–483 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

Z-spread for, 5:146

default-free bonds, 5:128-129

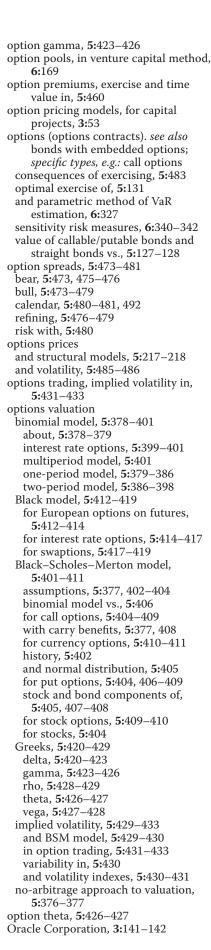
with spot rates, 5:79-80

Cumulative_Ind_L2 62

June 14, 2018 9:39 PM







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 labor 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, 2:20-22 and net income, 2:304-305 and periodic pension cost, 2:82-83, 98 and residual income, 4:521-525 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, 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 outward-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; 4:120 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; 4:559
of firm's records, 1:147, 148
of real estate, 6:6
stock, 1:151–153
ownership fraction, for venture capital,
6:167

ownership fraction, for venture capital, 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 multicollinearity 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

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, 5:44

partial fills, 1:85 partial regression coefficients, 1:333 partial slope coefficients, 1:333

Cumulative_Ind_L2 63 June 14, 2018 9:39 PM







I-64 Index

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, passive investment strategy, 6:253 passive management, 6:300 Pastor-Stambaugh model (PSM), 4:83-84 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, 3:13-15 payer swaptions, 5:417, 418 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 and dividend safety, 3:179-183 and FFO/AFFO, 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/CF. 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 Penman, 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, percentage leases, for retail properties, perfect capital markets, 3:95, 135, 147 perfect collinearity, 1:335n.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

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 permissionless 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, 4:153–163 personal ethics, **3:**215, 219–220 personal incentives, for M&As, 3:285 personal trading and conflict of interest, 1:155 disclosure of, 1:160, 161 limitations on, 1:62 and market manipulation, 1:69-70 priority of transactions for, 1:157 personal-use assets, 4:564 personnel preventing overlap of, 1:62 privy to recommendation, 1:84 reporting requirements for, 1:159-160 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, 322 - 323petroleum. see crude oil Petropolis, 4:137 PF CLOs. see project finance collateralized loan obligations P/FFO. see price-to-funds from operations

of portfolio managers, 1:274-275

objectivity of, 1:33

dynamic, **5:**377



independence of investment

decisions with, 6:513-514

covered calls for protection of,

of, 5:449

5:488-490

credit analysis of, 5:349

developing, 1:75-76

interest rate swaps in management

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:**6 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 - 254investor objectives and constraints, 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 Portland General Electric Co., 4:439 Portugal active return and weights for equities, **6:**500, 503, 504 commercial property values, **6:**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 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 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

June 14, 2018 9:39 PM

Cumulative_Ind_L2 65







I-66 Index

pound, British 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
power centers, 6: 92
PP&E. see property, plant, and equipment
PPICEM. see US Producer Price Index for Crude Energy Materials
PPL Corp., 4: 439
PPP. see purchasing power parity
practice, defined, 1:106
PRAT model, 4: 244–246 PRE. <i>see</i> pre-money valuation
precious metals, 6: 195
average annual sector roll return,
6: 224, 225
commodity life cycle, 6: 199–200 precision, in ensemble learning,
1:386n.78
preclearance procedures, 1: 160
predicted P/E, 4:397
prediction error, 1:309 prediction intervals, for linear regression
model, 1: 308–311
predictions
bankruptcy prediction models, 2:331–332
in data analytics, 1: 379
of gross margins for Intel Corporation,
1:451-453
of spot rates, 1: 560–564 by Survey of Professional Forecasters,
1:305
pre-dissemination behavior, guidelines
for, 1: 85 preferred dividends, for private equity
firms, 6: 143
preferred habitats, 3: 114
preferred habitat theory, 5: 35–36
preferred stock, 4: 216–217, 318–319 premature revenue recognition,
2: 320–324
premise of value (term), 4: 560n.8
premium(s). <i>see also</i> risk premium(s) in build-up approaches, 4: 85–87
control, 4:30, 581–582
on convertible bonds, 5:171-172
defined, 4:58
and discounts in private company valuation, 4: 588–589
forward, 1: 550, 561
insurance, 2: 264, 269
liquidity, 5:34
for long-term equilibrium interest rates, 1: 573
in net asset value approach, 6:103
net premiums earned and written,
2: 269 option, 5: 460
in private equity investments, 6: 140
on risky assets, 6: 389–392
size, 4: 570

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 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 presentation currency defined, 2:131 parent's, 2:151-154 presentations, 1:99-100. see also Performance Presentation [Standard III(D)] present value adjusted, 4:286n.2 of annuities, **5:**417–418 of cash flows, 6:44 of CDS spread, 5:283 of discounted lease payments, 2:404-405 of expected loss, 5:205 of FCFE, 4:287 of FCFF, 4:286-287 and fixed swap rate, 5:347-348 net, **3:**10–11, 17–22 of capital projects with real options, 3:53 defined, 3:10 NPV profile, **3:**17–18 ranking conflicts between IRR and, **3:**18–22 and stock prices, 3:26-27 of payment stream, 5:283 risk neutral, 6:390 swap value based on, 5:349 present 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 present value of growth opportunities (PVGO), 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 fair dealing [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, 1:525 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 breakeven for bear spreads, 5:476 for bull spreads, 5:474-475 for covered calls, 5:462, 463 in 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, 1:564; 4:380-381; 5:77 from LBO model, 6:146 market conversion, 5:171-172 and market value of property, 6:24

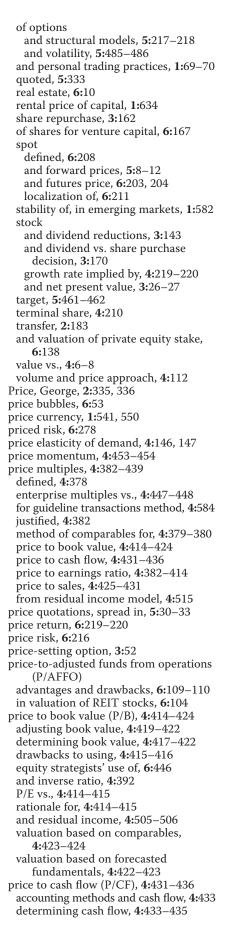
offer, 1:541, 544-548

oil, 1:471-472

Cumulative_Ind_L2 66 June 14, 2018 9:39 PM







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), 4:436-439 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, real cyclically adjusted, 6:447 in relative valuation model, 4:25 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, 4:388-390 and comparability with other companies, 4:390 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

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, 4:429-430 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 notation 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 notation for pricing, 5:309-311 mispricing, 4:7-8real-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

Cumulative_Ind_L2 67 June 14, 2018 9:39 PM

comparable, **4:**409-410

industry and sector multiples, 4:405







I-68 Index

principal components analysis (PCA), 1:389; 5:47-50 principal components models, 6:285 prior coverage, 1:38 prior employers, 1:99, 110 prior 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, 1:157nonpublic information, 1:158 personal trading and trading for clients, 1:157 text of, 1:18, 157 prior transactions method (PTM), 4:579, 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, 4:10 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, 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 private placements, limits on, 1:159 private real estate investments, **6:**5–78 about, 6:6-7 characteristics of real estate, 6:9-11 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, 6:57-61 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,

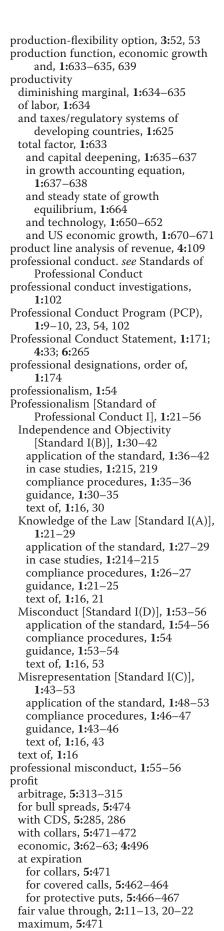
probabilistic inputs, number of, 1:522 probabilistic risk assessment approaches, 1:519-533 about, 1:519 comparing, 1:530-531 in electricity, commodities, and technology markets, 1:532 function of, 1:533 and risk-adjusted value, 1:531-532 simulations, 1:520-530 with constraints, 1:527-528 decision making 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, 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, 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

Cumulative_Ind_L2 68 June 14, 2018 9:39 PM

6:82n.2



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, 2:343 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, 2:313 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, 6:23 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), 4:133 property analysis, WorldCom, 2:328-329 property and casualty (P&C) insurance companies, 2:265-273

as financial institutions, 2:217 investment returns, 2:270-271 life and health insurance companies vs., 2:264 liquidity, 2:271-273 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)]) and regulation of financial markets, 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 autoregression (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

Cumulative_Ind_L2 69 June 14, 2018 9:39 PM

earnings characteristics, 2:266-270

capitalization, 2:273







I-70 Index

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: 96–97
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
oump and dump strategy, 1:72
oump-priming strategy, 1:71
ourchase contracts, 2:343
ourchase methods, business combination, 2: 37
ourchase price, excess, 2: 28–30
ourchasing power gain, 2: 173
ourchasing power loss, 2: 173
purchasing power parity (PPP)
and Dornbusch overshooting model,
1:588
<i>ex ante</i> 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
oure expectations theory, 5: 33
oure factor portfolio, 6: 281
purpose, of financial statement analysis,
2: 373, 403
oush factors, in economic management,
1: 593 outable 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

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 durations for, 5:158 one-sided duration for, 5:155, 156 and optimal exercise of options, 5:131 risky, 5:145-150 interest rate volatility and optionadjusted 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 delta 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 quantifying 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

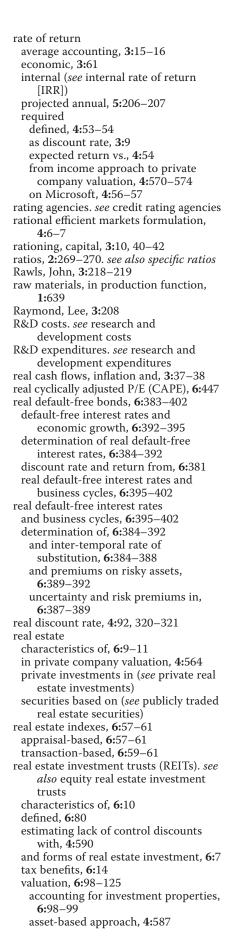
QE. see quantitative easing qth order moving average model (MA/q/ model), 1:473 qualifications, board of directors, **3:**238-239 qualification summary, 1:47 qualified investors, 6:153, 156 qualitative ESG factors, 4:331 qualitative variables dependent, 1:376-378 as dummy variables, 1:344-348 quality 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, 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, 5:213–214,
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

Cumulative_Ind_L2 70 June 14, 2018 9:39 PM







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, 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 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 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

Cumulative_Ind_L2 71 June 14, 2018 9:39 PM







I-72 Index

receiver swaptions embedded calls and, 5:419 valuation of, 5:417, 418 recessions, 6:419, 456-457. see also global financial crisis (2007-2009) Reckitt Benckiser, 4:121 reclassifications, balance sheet, **2:**296-298 recognition expense, 2:330-331 revenue, 2:320-328 timing of, 2:293-296 recommendation objectivity, 1:40-41 recommendations. see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V] fair dealing in, 1:82-83 from financial statement analysis, 2:401-402, 406 in investment policy statements, 1:148 as material nonpublic information, 1:65-66 number of people privy to, 1:84 reasonable basis for, 1:127 reconciliation, of commercial real estate valuations, 6:26, 53-54 reconstitution, 5:79 record keeping fintech for, 1:241 supervision of, 1:123 record retention, 1:148 Record Retention [Standard V(C)], 1:146-148 application of the standard, 1:148 compliance procedures, 1:147 guidance, 1:146-147 local requirements, 1:147 new media records, 1:147 records as firm property, 1:147 text of, 1:18, 146 records maintenance of, 1:62 as property of firm, 1:147, 148 recovery rate, 5:273; 6:430-431 bond prices based on, 5:247 of corporate bonds, 5:240 in credit risk modeling, 5:203 and credit spreads, 5:237-238 of floating-rate notes, 5:232-233 of zero-coupon bonds, 5:205 recurring earnings, 2:310-313 Red Book (Royal Institution of Chartered Surveyors), 6:57 redemption risk, 6:356 reduced-form models, 5:216-219 re-engineering of companies, by private equity investors, 6:141 reference entity, **5:**269, 271–272 reference obligation, 5:269 references, employee, 1:54 Reference to CFA Institute, Designation and Program [Standard VII(B)], 1:170-174 application of the standard, 1:173-174 compliance procedures, 1:172 guidance, 1:170-172 CFA designation, 1:171, 172 CFA Institute membership, 1:170–171

referring to candidacy in CFA program, 1:171-172 text of, 1:19, 170 referral arrangements disclosure of, 1:162-164 informing firms of, 1:163 interdepartmental, 1:163 Referral fees [Standard VI(C)], 1:162-164 application of the standard, 1:162-164 compliance procedures, 1:162 guidance, 1:162 text of, 1:18, 162 refined (petroleum) products, 6:193 refineries, 6:198 regimes crawling peg, 1:579 multiple, 1:488 time-series analysis with, 1:458, 459, regional banks, 2:216 regional shopping malls, 6:92 regression, cross-sectional, 4:397-398 regression analysis, 1:328-378. see also time-series analysis analysts use of, 1:328 dummy variables in, 1:344-348 linear regression model, 1:285-311 analysis of variance, 1:305-308 assumptions in, 1:289-291 coefficient of determination, 1:295-297 hypothesis testing with, 1:297-305 limitations, 1:311 with one independent variable, 1:286-289 prediction intervals, 1:308-311 standard error of estimate, 1:292-295 model specification, 1:363-376 of functional form, 1:364-372 principles of, 1:363-364 of time series, **1:**372–376 multiple linear regression model, 1:328-344 adjusted R2, 1:343-344 assumptions of, 1:334-339 for bid-ask spread, 1:329-333 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 penalized regression, 1:383-384 with qualitative dependent variables, 1:376-378 and random walks, 1:461 regressions with multiple time series, 1:484-488 violations of assumptions, 1:348-363 heteroskedasticity, 1:349-355 multicollinearity, 1:359–362

regression residual, 1:295 regression sum of squares (RSS), 1:306 regression trees, 1:384-385 regular cash dividends, 3:127-128 regular cash flows, from real estate, **6:**452-453 regularization, 1:383 regulation(s), 1:701-730. see also government regulation(s) about, 1:701-702 antitrust, 3:210, 299-302 on banking, 2:215-216 classification of, 1:702-705 of commerce, 1:713-716 commodity markets, 6:208 and competitive forces, 4:139 cost-benefit analysis for, 1:718-720 economic effects of, 1:720-725 economic rationale for, 1:705-708 environmental, 1:725; 6:193 and ethics, 1:13 for financial institutions, 2:217 of financial markets, 1:717-718 as investor constraint, 6:263 and long-term forecasts, 4:167-168 M&A, 3:299-303 practice problems, 1:728-731 for private equity investments, 6:157 purpose of, for financial institutions, 2:214 and pursuit of profit, 3:205 regulatory tools, 1:708-710 securities laws, 3:302-303 self-regulation in securities markets, **1:**711–713 solutions to problems, 1:732-733 and VaR measurement, 6:334 Regulation FD (SEC), 4:16 Regulation National Market System (SEC), 1:720 Regulation Q (SEC), 1:720-721 Regulations for Urban Land Valuation, regulators, classification of, 1:702-705 regulatory arbitrage, 1:706-707 regulatory authorities Basel Committee for Banking Supervision, 2:217-219 and financial institutions, 2:220 regulatory burden, 1:718-719 regulatory capital restrictions, simulations with, 1:527-528 regulatory capture theory, 1:706 regulatory competition, 1:706-707 regulatory compliance, distributed ledger technology for, 1:257 regulatory factors, in bond yields, **6:**423–424 regulatory information, in equity valuation, 4:16 regulatory interdependencies, 1:706-708 regulatory oversight, algorithmic techniques for, 6:542-544 regulatory projects, cost-benefit analysis for, 3:8 regulatory risk, 3:260-261 regulatory systems, of developing vs. developed countries, 1:625 regulatory tools, 1:708–710

Cumulative_Ind_L2 72 June 14, 2018 9:39 PM

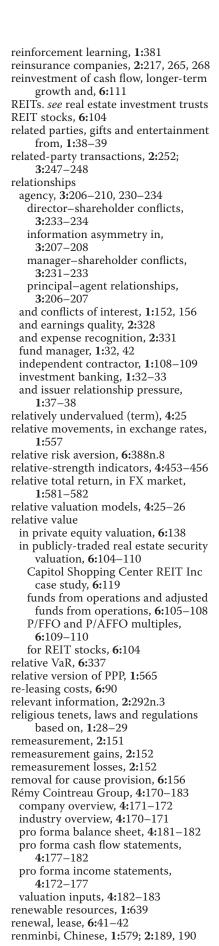
serial correlation, 1:355-359

and solutions, 1:362-363

regression coefficients

defined, 1:286, 329

instability of, 1:458-460



renovation, property undergoing, **6:**31–32 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 renumeration report, of SABMiller plc, 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 corporate sustainability, 4:17 facts vs. opinions in, 1:140 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 examples, 4:73-78 case studies, 4:56-57, 73-75, 81-83 and 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 group, 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 capitalization of, 2:304 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 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, reserve allowance, 6:28n.5 Reserve Bank of Australia, 2:217



I-74 Index

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, 6:34. see also terminal capitalization rate residual dividend policy, 3:155, 159-161 residual error, in autoregressive models, 1:436 residual income, 4:493-497 calculation, 4:493-495 for capital budgeting, 3:63-64 commercial implementations, 4:496-497 continuing, 4:507 determinants, 4:505-506 equity valuation with, 4:495-496 in present value models, 4:205-206 returns as, 4:205-206 residual income model, 4:381n.3, 497-530, 569 as absolute valuation model, 4:24 accounting considerations, 4:516-529 about, 4:516-517 aggressive accounting practices, 4:529 balance sheet adjustments for fair value, 4:525 clean surplus violations, 4:517-525 intangible assets, 4:526-528 nonrecurring items, 4:528-529 adjustments in, 4:523-525 DDM vs., 4:500-501 determinants of residual income, **4:**505-506 examples, 4:499-504 general form, 4:500-505 guidelines for use, 4:515 international considerations, 4:529-530 multistage model, 4:507-512 other valuation models vs., 4:512-515 per-share residual income forecasts, 4:498-499 single-stage model, 4:506-507 strengths and weaknesses of, **4:**514–515 for valuing a perpetuity, 4:512-514 residual income valuation, 4:491-554 about, 4:492-493 practice problems, 4:534-542 and residual income, 4:493-497 calculation, **4:**493–495 commercial implementations, 4:496-497 determinants of residual income, 4:505-506 equity valuation with residual income, 4:495-496 residual income model, 4:497-530 accounting considerations, 4:516-529 adjustments in, 4:523-525 determinants of residual income, 4:505-506

examples, 4:499-504 general form, 4:500-505 guidelines for use, 4:515 international considerations, **4:**529-530 multistage model, 4:507-512 other valuation models vs., **4:**512-515 per-share residual income forecasts, 4:498-499 single-stage model, 4:506-507 strengths and weaknesses of, **4:**514–515 for valuing a perpetuity, 4:512-514 solutions to problems, 4:543-554 residual loss, 3:104 residual risk, 6:480 residuals, from estimating trends, 1:443 residual sum of squares, 1:306 residual value to paid in (RVPI), 6:160, 163-164 resource curse, **1:**639–640 resources central banks' utilization of, 1:631 energy, 1:640-641, 721 M&As for acquisition of, 3:284 natural, 1:639-641 Responsibilities as a CFA Institute Member or CFA Candidate [Standard of Professional Conduct VII], 1:165-174 Conduct as Participants in CFA Institute Programs [Standard VII(A)], 1:165-169 application of the standard, **1:**167–169 eleventh addition revision, 1:8 guidance, 1:165-167 text of, 1:19, 165 Reference to CFA Institute, Designation and Program [Standard VII(B)], **1:**170–174 application of the standard, 1:173-174 compliance procedures, 1:172guidance, 1:170-172 text of, 1:19, 170 Responsibilities of Supervisors [Standard IV(C)], 1:118–126 application of the standard, 1:122-126 in case studies, 1:223-226 compliance procedures, 1:120–122 adequate, 1:120-121 and code of ethics, 1:120 establishing appropriate incentive structures, 1:122 implementation of compliance education and training, 1:121 eleventh edition revision, 1:7-8 guidance, 1:118-120 detection as part of supervision, 1:119-120 system for supervision, 1:119 text of, 1:18, 118

execution-only, 1:81 of portfolio managers, 6:265 public responsibilities committee, for research reporting, 4:36-37 SEC's allocation of, 1:703–704 social, 3:216-217 restricted lists, creating, 1:36 restricted periods, 1:159 restricted stock transactions, 4:591 restrictions, for private equity funds, 6:156 restrictive fiscal policy, 1:586 restrictive monetary policy, 1:586-587 restrictive takeover laws, 3:294-295 restructuring, **3:**319–320; **5:**272–273 restructuring costs (restructuring charges) and free cash flow to firm, 4:295, 298 IFRS and GAAP on, 2:56 and quality of financial reports, **2:**303-304 results overemphasis of, 1:53 quality of, 2:290, 342 (see also earnings quality) simulated, 1:99-100 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 **1:**477-480 **4:**243-246 (Hammond, Leibowitz, and Siegel), status, 1:173 beginning required return; rate of return [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 and fundamental law of active

moving average for, 1:471 REITs and growth in, 6:94-95 and seasonality in time-series analysis, time-series data for, 1:435 retained earnings, 2:152-153 retention rate, growth rate and, Rethinking the Equity Risk Premium retired CFA Institute membership return(s), **4:**51–104. see also entries abnormal, 4:7 active, 6:294-296 (see also value added management, 6:488-492 and information ratio, 6:481 in optimal portfolio construction, **6:**485 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

Cumulative_Ind_L2 74 June 14, 2018 9:39 PM

responsibility(-ies)

accepting, 1:124

of analysts, 4:31-33

of employers, 1:106

of board of directors, 3:259







bond real estate vs. bonds, 6:17-18 realized and expected returns, 5:17-19 stock vs. bonds, 1:279; 5:173-175; **6:**17-18 T-bills vs. bonds, 1:284 on Canadian dollar and Japanese yen, 1:283-284 capital, **6:**58 carry trade, 1:573, 582 cash-on-cash, 6:62 cash operating, 2:391-392 collateral, **6:**221–222 commodity futures, 6:213-225 constant returns to scale, 1:634 covariance in, 6:285 cumulative abnormal, 1:347-348 debt and equity, 1:278-279 and discount rate, 4:57, 92 disproportionate, 4:590 equity risk premium, 4:58-71 ex ante, **6:**472, 477–478 in excess of risk-free rate, 6:279 expected active, 6:492-493, 499-506 on bonds, 5:17-19 and intrinsic value, 4:55-57 to portfolio, 6:280-281 and required rate of return, 4:54 and risk, 6:477-478 expected holding-period, 4:53 ex post, **6:**472, 477, 478 from factor sensitivities, 6:288-289 Fidelity Select Technology Fund and multicollinearity, 1:360-362 multiple linear regression, 1:337-339 and unit roots, 1:487 holding period, **4:**52–53; **6:**58 importance of, 4:52 income, 6:58-59 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:**204–205 measures of, 6:259 month-of-the year effects on, 1:345-346 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 price, **6:**219–220 real estate, **6:**8, 58–61 realized, 4:53; 5:17-19; 6:477, 478 rebalance, 6:222 REIT, 6:88, 111 relative total return in FX market, 1:581-582 required, 4:53-54, 56-57 required rate of return, 4:570-574 required return on equity, 4:71-90 build-up method, 4:85-89 CAPM model, 4:71-79

case studies, 4:56-57, 73-75, 81-83 international issues, 4:89-90 multifactor models, 4:79-85 roll, **6:**220–225 short-term, in Chinese mergers and acquisitions, 1:347-348 solutions to problems, 4:101–104 S&P 500 Index, 1:271-272, 294 standard deviation of, 6:257 bond returns vs., 1:279; 5:173-175; **6:**17-18 month-of-the year effects, 1:345-346 predictability of, 1:485 real estate returns vs., **6:**17–18 short-term, in Chinese mergers and acquisitions, 1:347-348 stock index returns, 1:277-278 T-bill conditional heteroskedasticity of, 1:353, 355 Fisher effect, 1:373-376 serial correlation of, 1:359 total, 6:420-421 variance in, **6:**257, 285, 498 and weighted average cost of capital, 4:90-92 with Carhart four-factor model, **6:**294-296 defined, 6:290

4:90–92
return attribution, 6:293–296
with Carhart four-factor model,
6:294–296
defined, 6:290
with fundamental factor model,
6:293–294
return desire, 6:259–260
return distribution
for collars, 5:473

for covered calls, **5**:460 for protective puts, **5**:466 return objective, **6**:259–261 return on assets (ROA) economic measures of performance vs., **3**:61

and financial policies/dividend growth rate, **4**:244 as risk measure, **4**:403n.25 and ROE, **4**:243

and ROE, 4:243
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

and clean surplus violations, 4:516–517 and comprehensive income, 4:521–523 DuPont analysis

and forecasting dividend growth rates, 4:241, 243 for long-term equity investment,

2:383 and residual income valuation,

and residual income valuation, 4:516–517

in spreadsheet modeling, **4**:238 in valuation based on forecasted fundamentals, **4**:429

economic rate of return vs., **3:**61 and growth rates, **4:**243–246 and intangible assets, **4:**526–528

mature-phase, 4:238 and residual income, 4:506–507 return on invested capital (ROIC) and balance sheet modeling, 4:133 company value from, 1:301–303 defined, 4:444, 495n.5 and WACC, 1:309–311 return on investment, in high-quality

earnings, **2:**292–293 return on net operating assets (RNOA),

2:318–319
return requirements investors'

return requirements, investors, **6:**259–261

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 from support services, **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,

reversion valuation of property, **6:**37–39,

43–44 reviewed financial statements, **4:**566

reviews account, 1:77, 86, 94

compensation, 3:254 of compliance procedures, 1:26

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 rho, 5:428–429

Rhode Island, ESG risk exposures, **3:**260 RICI. *see* Rogers International Commodity Index

RICS. see Royal Institution of Chartered
Surveyors

"riding the yield curve" strategy, 5:22-23

Cumulative_Ind_L2 75

June 14, 2018 9:39 PM







I-76 Index

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, 5:470 crash, 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 downside, 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:**353-354 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 Notes to Financial Statements, **2:**346-347, 350-355 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, 6:356

RMRF, 4:79, 80; 6:284, 294-296 scenario, 6:343-352 security selection, 6:298-299 sensitivity risk measures, 6:339-343 shaping, **5:**45–46 small minus big, 4:80; 6:284, 294–296 sovereign credit, 6:433-436 with spreads, 5:480 of stocks and bonds vs. real estate, of straight/convertible bonds vs. common stock, **5:**173–175 strategic policy, 3:262 strategy, 6:513 surplus at risk, 6:359 systematic, 3:49; 6:278–279, 284 systemic, 1:702, 709; 2:214 tail, 6:365 taxation, 6:157 time horizon, 4:84; 6:301, 302 total, 6:297 tracking, 6:296 unsystematic, 3:49 with valuation of stock REITs, 6:104 value at risk (VaR), 6:257, 319-338 advantages and limitations of, **6:**333–336 estimating, 6:322-333 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 and venture capital method of valuation, **6:**171–172 winners minus losers, **6:**284, 294–296 yield curve, 5:51-53 @RISK (software), 3:45; 6:139-140 risk-adjusted value computing, **1:**525–526 and decision trees/scenario analysis, 1:531-532 and simulations, 1:529-532 risk analysis for capital projects, 3:42-51 market risk methods, 3:49-51 stand-alone methods, 3:42-48 fintech for, 1:252-253 full, 1:530-531 selective, 1:530 risk appetite, 6:362 risk arbitrage, 1:63; 6:280n.4 risk assessment, probabilistic, 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 risk attribution, 6:296-300

and active manager guidelines, 6:297

active risk, 6:296-300

Cumulative_Ind_L2 76 June 14, 2018 9:39 PM

regulatory, 3:260-261

in research reports, 4:36

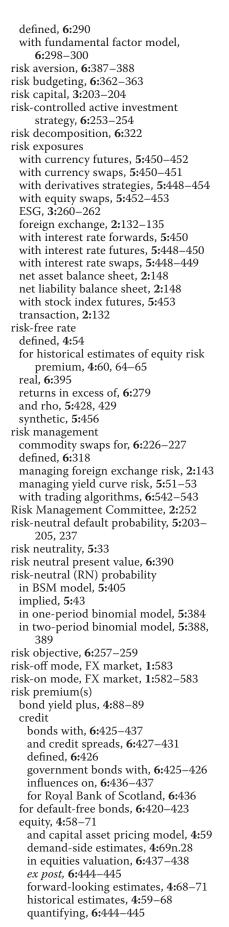
reversals of (see collars)

reputational, 3:261

residual, 6:480







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, commodity swaps for, 6:226-227 risk-weighted assets (RWAs), 2:221 risky bonds, 5:145-150 interest rate volatility and optionadjusted 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 RMRF risk factor in Carhart four-factor model, 6:284, 294-296 in Fama-French model, 4:79, 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 - 252robust 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:**275 "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

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, 6:433 RVPI. see residual value to paid in RWAs. see risk-weighted assets Ryanair Holdings PLC, 4:299-301 **3:**243–244

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, sale(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 enterprise value 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 Nestlé, 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

Cumulative_Ind_L2 77 June 14, 2018 9:39 PM

Notes to Financial Statements,

use of disclosures, 2:352-355

2:351-355







I-78 Index

sales projections, 4:145-150 company sales, 4:147-149 industry sales, 4:145-147 and input cost increases, 4:149-150 sales-to-price ratio (S/P), 4:392 Saluja, Kawaljeet, 2:337 same-strike collars, 5:472 sample period, forecasting quality and, 1:460 Samsung, 4:168 sanctions by CFA Institute, 1:10, 15 for Mitchell Hutchins Asset Management, 1:233-234 and regulations, 1:710 SAP AG, 4:518, 520 Sarbanes-Oxley Act, 1:702n.2, 717 SARs. see stock appreciation rights SASB. see Sustainable Accounting Standards Board Satyam Computer Services Limited cash flow quality at, 2:334-338 fictitious reports by, 2:294-296 Saudi Arabia Basel Committee membership, 2:218 natural resources, 1:639, 640 real GDP per capita, 1:621, 677 Saudi Arabian Monetary Agency, 2:218 savings and convergence in open economy, **1:**678, 679 in developing vs. developed countries, 1:623 and neoclassical model, 1:667 savings and loan associations, 2:216 savings rate in endogenous growth model, 1:673 in neoclassical model, 1:671 and steady state of growth equilibrium, 1:663-664 scale constant returns to, 1:634 economies of, 3:280 economies of scale, 4:115 project, and IRR vs. NPV, 3:21-22 scaled earnings surprise, 4:451 scale effect, in open economies, 1:679 scaling, of functional form, 1:370–372 scandals accounting, 3:209-210 pay-to-play, 1:34 scatter plots, 1:264-265 scenario analysis (scenario testing) about, 1:533 for asset managers, 6:356 for banks, **6:**354 of bonds with options, 5:149–150 for capital projects, 3:44 decision trees vs., 1:530-531 defined, 1:519 and diligence, 1:131 fintech for, 1:253 and risk-adjusted value, 1:531 sensitivity analysis vs., 4:135–136 simulations vs., 1:520, 530-531 scenario limits, 6:363-364 scenario risk measures, 6:343-347 advantages and limitations, 6:349-352 historical scenarios, 6:344-346

hypothetical scenarios, 6:346-347 and VaR, 6:349-352 Scheinkman, José, 5:47 Schlumberger Ltd., 4:14 Schneider Electric SA, 3:133 Scholes, Myron, 5:216, 402 Scholz, Peter, 1:251 Schroders Asset Management, 1:281-282 Scope Ratings AG, 5:248 screening, stock, 4:461-463 scrip dividend scheme, 3:128 Seagate Technology, 4:444-446 Sealed Air Corporation, 2:344-346 search, in data science, 1:247 Sears, Mike, 3:205, 206 seasonality, in time-series analysis, **1:**474–480, 490 seasoned equity offering (SEO), 3:231 SEC. see US Securities and Exchange Commission secondary buyouts, 6:150 secondary market, as private investment exit route, **6:**150 secondary offerings, of equity REITs, 6:85 secondary research, 1:127-128 secondary venture capital transactions, second-order autoregression (AR[2]) in-sample forecast errors with, 1:456-457 instability in, 1:458-460 out-of-sample forecast errors with, 1:457-458 serial correlations and forecasting quality, 1:456 second regional banks, 2:216 sector rotation strategies, 4:463 sectors, economic. see economic sectors securities. see also specific types of securities asset quality of, 2:224 available-for-sale, 2:247-249 debt, 2:224 description of, 1:141-142 held-to-maturity, 2:249 with path-dependent cash flows, 5:100 repackaging of, 5:248 value added and selection of, 6:475-477 as zero-coupon bonds, 5:79 Securities Act (1933), 1:702n.2 Securities Exchange Act (1934), 1:702n.2 securities laws, 3:210, 302-303 securities markets algorithmic trading and, 6:545-547 regulation of, **1:**711-713, 717-718 securities offerings, 3:290, 291 securitization, of receivables, 2:53-55 securitized debt, credit analysis for, **5:**247-251 security (of electronic information), 1:102 Security Analysis (Graham and Dodd),

SEE. see standard error of estimate seed stage (private equity), 6:137 segment analysis in long-term equity investment case study, 2:386-395 of revenue, 4:109 segmented markets, 4:72; 5:35 segment information, 2:241 selection-based indexes, 6:228 selection effect, in open economies, 1:679 selective disclosure, 1:64, 86, 88 selective risk analysis, 1:530 self-assessment, board of directors, **3:**240 self-dealing, 1:107; 3:213 self-financing, in two-period binomial model, 5:387, 389 self-regulating organizations (SROs), **1:**703–704 self-regulation, of securities markets, **1:**711–713 "Self-Regulation in Securities Markets" (Carson), 1:711-712 sellers, credit protection, 5:268-269 selling, general, and administrative (SG&A) expenses in modeling of operating costs, 4:119-120 on pro forma income statements, selling expenses, 4:119 selling restrictions, convertible bond, **5:**173 sell-side analysts, 4:31-33; 6:250 sell-side firms, 6:535 semiactive investment strategy, 6:253-254 semiconductor manufacturing, 4:168 senior managers access to, 3:254 agency relationships of, 3:206 compensation reviews for, 3:254 Sensex. see S&P BSE Sensex Index sensitivity analysis and absolute valuation models, 4:24 for capital projects, 3:43-44 converting forecasts to valuations with, 4:30 defined, 4:12 of FCFE and FCFF approaches, 4:321-323 for financial forecasting, 4:135-136 in venture capital method, 6:168-169 sensitivity risk measures, 6:339–343 advantages and limitations, 6:349-352 for asset managers, 6:356 equity exposure, 6:339 fixed-income exposure, 6:339-340 options risk, 6:340-342 and VaR, 6:348-352 sensor data, 1:243, 244 SEO. see seasoned equity offering Separate Financial Statements (IAS 27), 2:8-10 serial correlation, 1:355-359, 362-363 in autoregressive models, 1:437, 449-452 consequences of, 1:355-356

June 14, 2018 9:39 PM

Cumulative_Ind_L2 78

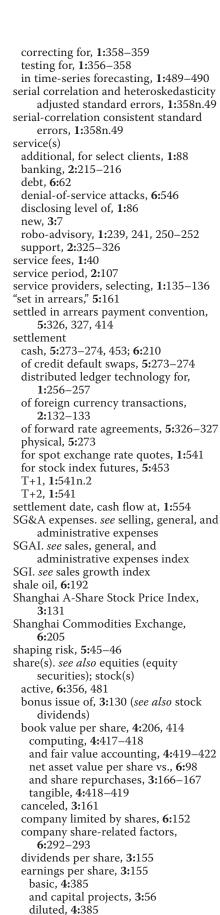
security market indexes, 6:473

security market line (SML), 3:49-51

security selection risk, 6:298-299







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 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 charges, 4:299 private company valuation for, 4:559 at SABMiller plc, 2:103 stock appreciation rights, 2:109 stock grants, 2:105-106 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, 4:414 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 - 219dividend 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:**479-480 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, 6:91–92 short (term), 5:272 short legs, adding, 5:476–478 short positions and covered calls/protective puts, **5:**468 market value of, 5:310 synthetic, 5:455-456 short puts, 5:469 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., 4:71 Siemens AG, **3:**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







I-80 Index

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, 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

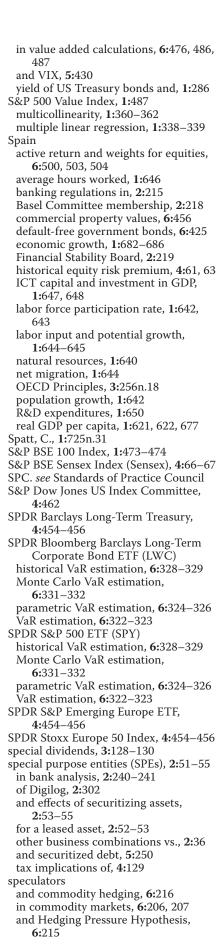
for residual income, 4:506-507

Singleton, Kenneth, 5:216 Singpore 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, 423 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 movingaverage 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 Sonia. 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,

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, 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, 1:487 multicollinearity, 1:360-362 multiple linear regression, 1:338-339 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 cap guidelines, 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

exports and foreign direct investment

in, 1:681



SPEs. see special purpose entities SPF. see Survey of Professional Forecasters 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 spin-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 spoofing, 6:544 spot curve (spot yield curve) defined, 5:7, 77 and forward prices, 5:19–20 and forward rate model, 5:8-16 relationship of forward curve and, **5:**11–14 and spot rates, 5:7 zero-coupon bond on, 5:7 spot exchange rates 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 spot markets, 6:190 spot prices defined, 6:208 and forward prices, 5:8-12 and futures price, 6:203, 204 localization of, 6:211 spot rates, 5:6-24 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 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 spot return, 6:221-222 spread(s) bear, **5:**473, 475–476 bid-ask multiple linear regression model for, 1:329-333 and 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; 6:140n.1 credit, **5:**234–247, 473; **6:**427–432 for banking and airline sector, 6:432 calculation of, 5:206, 224 calculation of, for corporate bonds, 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 debit, 5:473 of default-free yield curves, 6:417-419 excess, 5:250 I-, 5:29n.6, 31 Libor-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 spreaders, 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

Cumulative_Ind_L2 81 June 14, 2018 9:39 PM







I-82 Index

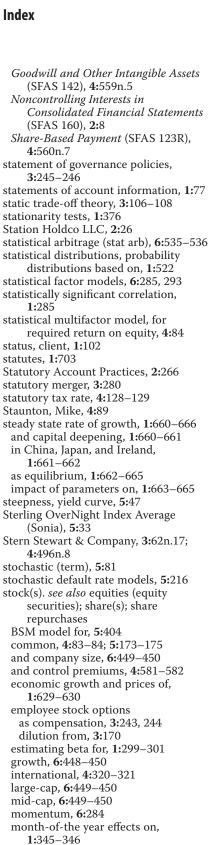
Staff Accounting Bulletin No. 104, SEC, 4:427 staggered boards of directors, 3:295 stakeholder impact analysis, 3:203 stakeholder payoffs, in LBO model, 6:147-148 stakeholders corporate governance by, 3:258 and corporate performance, 3:202-206 external, 3:202 internal, 3:202 stakeholder view of ethics, 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 Council (SPC), 1:10-11, 15 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)]4, 1:18, 157–162 referral fees [Standard VI(C)], 1:18, 162 - 164text of, 1:18 duties 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 performance presentation [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 duties 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)], 1:7-8, 18, 118 - 126text 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)], 1:16, 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

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)], 1:8, 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 VI(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 Nestlé, 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), Fair Value Measurements (SFAS 157), 4:30n.13, 559n.5, 561n.13

[Standard I(B)], 1:16, 30-42



noncallable fixed-rate perpetual

preferred stock, 4:216-217

non-dividend paying, 4:229-230

perpetual preferred, 4:216-217

preferred, 4:216-217, 318-319

and private company valuation, 4:558

purchase of, as form of acquisition,

ownership of, **1:**151–153

3:288-290

REIT, 6:104 restricted, 4:591 returns on bond returns vs., 1:279 government debt vs., 4:60-63 month-of-the year effects, 1:345-346 predictability of, 1:485 real estate vs., 6:17-18 short-term, in Chinese mergers and acquisitions, 1:347-348 for stock indexes, 1:277-278 screening of, **4:**461–463 selection of, 4:9, 462-463 small-cap, 1:345-346; 6:449-450 stock offerings for mergers and acquisitions, 3:290-291 terminal value of, 4:228 treasury, 3:161 value, **6**:284, 448–450 stock appreciation rights (SARs), 2:109 stock component, of BSM model, 5:405, 407-408 stock dividends, 3:130-132 stock grants, 2:105-106 stockholders agency relationships of, 3:206 information asymmetry for, 3:207-208 maximizing returns for, 3:204-205 role of, 3:203-204 as stakeholders, 3:202 stock indexes, 1:277-278; 5:321. see also specific indexes stock index futures, 5:453 stock market crash (1929), 3:281 stock options BSM model for, 5:409-410 as compensation, 2:106-108; 3:243, 244 dilution from, 3:170 pricing models for, 2:106-107 Stock Practice Aid. see Valuation of Privately-Held Company Equity Securities Issued as Compensation stock price 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 stock splits, 3:132-134; 5:168 stock valuation. see also equities valuation with H-model, 4:231-232 multiple valuation indicators in, **4:**459–460 for non-dividend paying stock, 4:229-230 with spreadsheet modeling, 4:237-238 with two-stage dividend discount model, 4:226-228 stop-loss limits, 6:364 Stora Enso Oyj, 4:426, 447 storage commodity valuation and, 6:203 Theory of, 6:216-217 storage real estate investment trusts,

STOXX Europe 50 Index, 4:454, 456 straddles, 5:481-483 analytics for, 5:486-487 applications, **5:**491–492 defined, **5:**473 long, 5:126, 483 short, 5:481 straight bonds and callable bonds/call options, capped floaters vs., 5:161 defined, 5:123 effective convexity of, 5:159 effective duration of, 5:153 floored floaters vs., 5:163 and putable bonds/put options, **5:**127–128 risk-return characteristics of convertible bonds and underlying stock vs., 5:173-175 straight-line depreciation, 3:31, 32 straight-line rent, 6:105 straight value, convertible bond, 5:170 strategic asset allocation, 6:254-255 strategic policy risk, 3:262 strategic portfolio decision-making, **6:**303 strategic transactions, 4:581 strategy risk, 6:513 stress tests, 1:723; 6:343, 354 strictly stationary (term), 1:448n.11 strike calls, multiple, 5:478 strike price (striking price). see exercise price stripping, 5:79 structural models, 5:216-219 structured bonds. see asset-backed securities (ABS) structured data, 1:242 structured products. see asset-backed securities (ABS) style analysis correlations, 1:274-275 style factors, 6:293 sub-advisors, selecting, 1:129, 136 subject property, in cost approach to real estate valuation, 6:25 submanagers, 1:96, 132-133 subordinated debt holders, 6:430-431 subprime mortgage crisis, **6:**142 subsidiaries, 2:130, 143-144 subsidiary mergers, 3:280 subsidies, government regulation and, **1:**721–723 substandard working conditions, 3:214 substantive law, 1:705 substitutes in beer markets, 4:138, 139 in cognac industry, 4:170 and financial forecasts, 4:137-139 in industry structure, 4:13 substitution, inter-temporal rate of, **6:**384-388 succession events, 5:273 succession plans, 3:253 SUE. see standardized unexpected earnings suitability, 1:96-97 for entire portfolio, 1:94–95 for investor risk profile, 1:94, 96





6:91, 93, 95



I-84 Index

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 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, updating investment policies, 1:92 text of, 1:17, 90 suitability test policies, 1:94 summaries attributing, 1:47 research report, 4:36 Summers, Larry, 1:707n.16 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, 1:385-386 defined, 1:245-246, 381 training in, 1:390-391 supervision detection 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)] 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 premiums, **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, 5:27, 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, 449 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, 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, 1:605 and Mexican peso, 1:542 and required return on equity, 4:89 and US dollar, 1:434-435

Swiss National Bank, 2:218

Cumulative_Ind_L2 84 June 14, 2018 9:39 PM





Switzerland
active return and weights for equities,
6: 499–504
Basel Committee membership, 2:218
commercial property values, 6: 456 <i>ex post</i> 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
synergy(-ies)
failure to capture, 3: 319 from mergers and acquisitions, 3: 283
price multiples and, 4:584
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, 4:153–163
tactical asset allocation, 6: 255
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,

takeover(s), 3:280, 293-299

3:296-298

greenmail, 3:296

Engelhard Corporation, 3:298-299

post-offer defense mechanisms,

crown jewel defense, 3:297

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, 3:156-157 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, 3:136-137 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 deferred, 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 and 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, 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), 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, and economic growth, 1:635-637, 649 - 653financial (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, 3:129-130 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, 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-K, Form, 2:355; 3:235; 4:16, 427-428 10-Q, Form, 4:16 tenant concentration, 6:91

June 14, 2018 9:39 PM







I-86 Index

tenant improvements (TIs), 6:42 tender offer, 3:293, 302-303 Tennessee Valley Authority (TVA), **5:**162–163 tenor (term), 5:7, 449 terminal amount, for Libor spot market, terminal capitalization rate, 6:30 and discounted cash flow method for real estate valuation, 6:34-36 and resale value, 6:43-44 terminal price multiples, 4:412-414 based on comparables, 4:413 defined, 4:412 multiple based on fundamentals, 4:412 in valuation of mature growth phase, **4:**413-414 terminal share price, 4:210 terminal value company, 6:144, 171 in long-term forecasts, 4:165-167 of M&A target, 3:304, 308-309 of stock, 4:228 terminal year incremental after-tax nonoperating cash flow, 3:35 termination date, 3:30 termination policies, employee, 1:109 term premium, **5:**39–40 term rent, **6:**37–38 term sheet, 6:143 term structure of credit spreads, 5:240-247 of interest rates, 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 in tests of bond analytics, 5:178 traditional theories, 5:33-38 of volatility, 5:430 TerraNova Énergy, 4:96, 101 Tertilt, Michael, 1:251 Tesco PLC, 4:146, 473 Texas Pacific Group, 6:136, 141 text analytics, 1:249, 388 TFP. see total factor productivity Thai Beverage, 3:143 Thailand, 1:594; 3:127 Thatcher, Margaret, 6:419 Theory of Storage, 6:216-217 theta, 5:426-427. see also carry costs third-party custodians, 1:32 third-party research, 1:127-128, 132 Thomson First Call, 4:384, 393 Thomson Reuters/CoreCommodity CRB Index (TR/CC CRB), 6:191, 230, 231, 233 3M, 4:164-166 three-stage models dividend discount, 4:232-237 with declining growth rates, 4:233-236 with distinct stages, 4:232-233 future dividend growth pattern for, 4:209

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 time frame for comparable-based valuation, 4:407 of decision 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, 1:567 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

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, time to maturity, key rate durations and, **5:**157 time value in calendar spreads, 5:480 of money, **5:**25, 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 tobacco companies, 3:213 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), Tootsie Roll Industries, 3:131–132 top-down approach 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 laws, 3:210 total capital ratio, 2:262-263 total debt/total capital ratio, 6:433 total factor productivity (TFP), 1:633 and capital deepening, 1:635-637 in growth accounting equation, 1:637-638 and steady state of growth equilibrium, 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

Cumulative_Ind_L2 86 June 14, 2018 9:39 PM

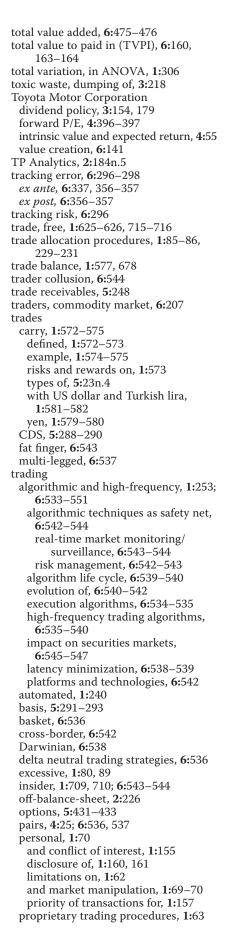
regressions with multiple time series,

1:484-488

seasonality in, 1:474-480







risk-arbitrage, 1:63 spread, **6:**536 supervising trading activities, 1:123 unsolicited requests for, 1:92-93 wash, 6:544 trading and credit portfolio VaR, **2:**261-262 trading volume, 1:70 traditional term structure theories, trailing dividend yield, 4:437 trailing earnings per share, 4:386-387 trailing P/E, 4:385-392, 409-410; 6:445 and business-cycle influence, **4:**388-390 calculating, **4:**385–392 and comparability with other companies, 4:390 defined, 4:384 equity strategists' use of, 6:445 justified, 4:222-224 with negative, zero, or low earnings, 4:390-392 and nonrecurring items, 4:386-388 trailing price to cash flow, 4:434 training compliance, 1:121 in supervised machine learning, 1:390-391 training sample, for machine learning, 1:391 tranche CDS, 5:270 transaction-based manipulation, 1:69 transaction-based real estate indexes, 6:59-61 transaction characteristics of M&As, 3:288-293 form of acquisition, 3:288-289 method of payment, 3:290-291 mind-set of management, 3:291-293 transaction costs, 6:10, 157, 255 transaction date, 4:584 transaction exposure, 2:132 transaction fees, 6:153 transactions across national borders, 2:130 adding, to ledgers, 1:255 allocation of, 1:87-88 with associates, 2:31-34 bid-offer spread and size of, 1:543 foreign currency, 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 related-party, 2:252 TransCanada Corporation, 5:242-243 transfer, in data science, 1:247 transferability, of shares, 3:229 transfer coefficient (TC) and active return variance, 6:498 defined, 6:489 for fixed-income strategies, 6:512 and full fundamental law of active management, 6:494-495

for global equity portfolio, 6:502-505 and optimal active risk, 6:497 transfer prices, 2:183 transformation, of regression variables first-differencing, 1:462-464 and model specification, 1:364, 366-370 transformational technologies, 1:649n.16 transitional growth, in neoclassical model, 1:668-670 transition growth phase, 4:226 transition matrixes, 5:214 translation of foreign currency financial statements, 2:148–160 Canadaco case study, 2:157-171 companies with multiple methods, 2:176-177 disclosure of, 2:177-183 for Chevron Corporation, 2:181-183 for Exxon Mobil Corporation, **2:**181–183 and net income, 2:182-183 at Yahoo! Inc., 2:178-181 foreign currency as functional currency method, 2:150-151 functional currency determination, in highly inflationary economies, **2:**154–157 parent's presentation currency as functional currency method, 2:151-154 for retained earnings, 2:152–153 transparency, in corporate governance, **3:**246–247, 258–259 transportation, commodity valuation and, 6:203 TransUnion, 5:210 Travelers Companies, Inc., 2:265, 267 - 272travel expenses, 1:36-37, 39-40 travel funding, 1:35 TR/CC CRB. see Thomson Reuters/ CoreCommodity CRB Index Treasuries. see US Treasury securities Treasury rate, 5:31-32 Treasury scare of 2000, 6:423 treasury shares (treasury stock). see US Treasury securities (US Treasuries) Treasury swap spread, 5:29 A Treatise on Money (Keynes), 6:213 trend analysis, 2:327, 330 TREND formula, 4:164 trending, 6:335, 364 trend models linear, 1:437-440 log-linear, 1:440-446 and testing for correlated errors, 1:446-447 time-series analysis, 1:437-447 trends linear, 1:437 payout policy, **3:**177–178 residuals from estimating, 1:443 Treynor, Jack, 6:250, 471 triangular approach, for private equity investments, 6:140 triangular arbitrage, among currencies, 1:544-546



June 14, 2018 9:39 PM







I-88 Index

trinomial choice models, 1:344n.28 Troubled Asset Relief Program (TARP), T.Rowe Price Small Cap fund, 6:479, 482 trust, 3:207-208 trust banks, 2:216 trustees, bond, 5:126n.1 trusts, real estate investment. see real estate investment trusts [REITs] of autocorrelation, 1:449 Dickey-Fuller test, 1:465 distribution table, 1:737 for Fisher effect, 1:353-355 formula for, 1:282-283 and F-test, 1:306 hypothesis testing with, 1:297-298 and multicollinearity, 1:360 in multiple linear regression, 1:341 tunneling, 2:331 Turkey average hours worked, 1:646 Basel 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 replicating option payoffs in, 5:377 two-period default-free bonds, **6:**389-390 two-stage models dividend discount, 4:226-229 combining P/E model and, 4:228-229 future dividend growth pattern for, 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, 1:343, 356; 2:308 Type II errors, 2:308

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, 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, 6:358 underlying (in general) for credit default swaps, 5:268, 278 and derivatives trading, 5:286 underlying (underlying asset) 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

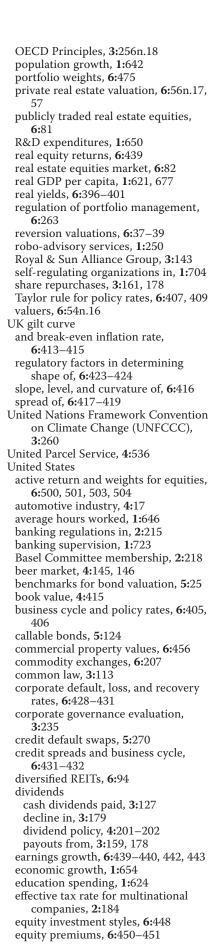
unexpected earnings, 4:451-453 unfair competition, regulation against, UNFCCC. see United Nations Framework Convention on Climate Change Uniform Standards of Professional Appraisal Practice (USPAP), 4:595 Unilever Group, 4:486 company costs, 4:151 ethics at, 3:220, 223 input and product prices for, 4:146-147 modeling of operating costs for, 4:122-126 Unilever N.V., 4:473, 486 Unilever PLC, 3:133; 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 Basel Committee membership, 2:218 beer market, 4:138-139 benchmark for swaps, 5:29 bond spread, total returns and GDP growth, 6:420, 421 break-even inflation rates, 6:410-412 business cycle and policy rates, 6:405, commercial property valuation, **6:**30-31 commercial real estate, 6:455-457 currency crisis in, 1:596 disclosures of risk information, 2:358 dividend imputation tax system, 3:151 dividend payouts, 3:159, 178 dividend policy, 4:201, 202 earnings growth, 6:439-440, 442, 444 equity REITs, 6:83 ex post equity risk premium, 6:445 food inflation, 4:147-148

GDP growth rate, 4:212 Gordon growth model, 4:68 government bond risk premiums, **6:**422-423 historical equity risk premium, ICT capital and investment in GDP,

index-linked bonds, 6:396, 398-399, inflation and T-bill rates, 6:404, 405 inflation target, **6:**409n.21 labor force participation rate, 1:643, 645 layer method, **6:**39-40 leases for office properties, 6:19, 20

1:647, 648

money supply growth and inflation, 1:264, 269, 294, 296 natural resources, 1:640 net migration, 1:644



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, 2:143-144 firms with negative book value for equity, 1:528 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, 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 impairment 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, labor supply and economic growth, 1:641 leases, 6:20, 21 livestock investment 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, 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 regulation commodity and futures regulation, cost-benefit analysis of, 1:719-720 disclosure regulations, 1:717n.19 and 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, 5:45, 46 US Air Force, 3:205–206 US Circuit Court of Appeals, 1:719 US Congress, 1:704; 3:299; 6:83 US Consumer Price Index (CPI) and inflation company 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 multiperiod 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

June 14, 2018 9:39 PM



I-90 Index

US dollar BMW's foreign currency exposure, 2:189, 190 CAD/USD currency pair, 1:541n.2, 543 and capital flows, 1:580 correlation of exchange rate returns for, 1:275-27 currency code, 1:605 currency translation, 2:155-157 and current account deficit, 1:578-579 and 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 for real GDP per capita, 1:621-622 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, 1:541, 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, 5:243-244US 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 - 178rules for translation of foreign currency financial statements, 2:153-154 translation methods for financial statements, 2:144, 149, 151-154, 163, 172–174, 176–178 NAV calculation for real assets, 6:102 non-controlling interests, 2:43 nonfinancial assets, 4:422 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, 91 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, 3:296 US L&H sector, 2:277 US National Association of Insurance Commissioners (NAIC), 2:220, 264n.31, 273 US Producer Price Index for Crude Energy Materials (PPICEM), 1:317–319 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, 3:237-238 classification shifting evidence, 2:312-313 corporate disclosure filings, 3:235 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,

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 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 requirement, **4:**449, 450 Regulation FD, 4:16 Regulation National Market System, Regulation Q, 1:720-721 required filings with, 4:16 robo-adviser regulation by, 1:250 Rule 10b-18, 3:161, 178n.59; 4:202n.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

Securities (TIPS), 6:396, 401

June 14, 2018 9:39 PM

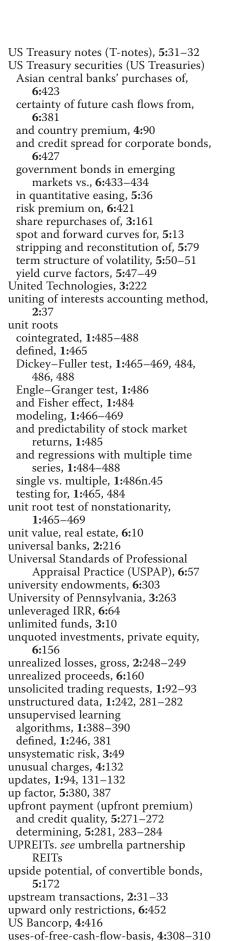
US Treasury Inflation-Protected

Cumulative_Ind_L2 90

2:326–328







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 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, valuation, 4:6, 36, 556n.1 absolute models, 4:23-25 arbitrage-free (see arbitrage-free valuation) 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 - 159for 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, for private equity, **6:**138, 144 for private real estate investments, for publicly traded real estate securities, **6:**111–113 valuation inputs for, 4:182-183 discounted dividend (see discounted dividend valuation)

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, 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

Cumulative_Ind_L2 91 June 14, 2018 9:39 PM

equities/stock, 6:437-451

cycles, 6:439-444

business cycles and, 6:452

earnings growth and economic

for equities with bad consumption

hedging properties, 6:438-439







I-92 Index

valuation (Continued) income approach to private company valuation, 4:562, 569-578 to private equity valuation, 6:138 to real estate valuation, 6:27-46 income models, 4:23n.8 last-in, first-out method balance sheet adjustments for, comparisons of companies using FIFO and, 4:390, 419 on foreign currency financial statements, 2:152 long forward positions, 5:317-318 market-based, 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 momentum indicators, 4:451-456 multiple indicators in, 4:459–463 practice problems, 4:468-480 price multiples, 4:382–439 solutions to problems, 4:481–489 multinational corporations, 1:335-337 options (see options valuation) pathwise, **5:**96–100 post-money, **6:**148–149, 166–167 pre-money, 6:148-149, 167 pricing vs., **5:**308 of private companies (see private company valuation) private equity 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, **6:**144–145, 148–149, 166–177 real estate (see real estate valuation) relative models, 4:25-26

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 discounted 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

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 valuer, **6:**54n.16 values, CFA Institute, 1:15 value stocks, **6:**284, 448–450 Vanguard, 2:252 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, 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

Cumulative_Ind_L2 92 June 14, 2018 9:39 PM

market risk monitored with, 2:238,

260 - 262







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 analytics, 5: 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 for 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 (<i>see</i> 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
WWAP algorithms. see volume-weighted
average price algorithms

WACC. see weighted average cost of WAL. see weighted average life Walgreens, 4:115-117 Wallison, P., 1:725n.31 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, 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, 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 WertR, 6:57 WertV, 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

June 14, 2018 9:39 PM









1-94 Index

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., 2:270 write-downs, **4:**387n.12 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

XMI Corporation, 4:41-42, 48

Yahoo!, Inc., 2:142, 178-181 Yahoo! Finance, 4:400 Yang, Y., 4:449n.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, 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 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 vield 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:**47–50 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 vield to maturity (YTM) in BYPRP method, 4:88 of corporate bonds, 5:224 and expected/realized return on bonds, 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

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

Cumulative_Ind_L2 94 June 14, 2018 9:39 PM



