accounts receivable management, 4:201–207
customers’ receipts, 4:203–206
evaluating, 4:206–207
trade granting process, 4:202–203
accounts receivable turnover, 4:186
accredited individuals, 4:262n.21
Accredited Investors, 6:158n.15
accrual accounting
cash-basis vs., 3:674–675
defined, 1:260
Input Data (GIPS Section I.1), 1:233
revenue recording under, 3:69
accruals, reporting of, 3:69–71
accrued expenses
as current liability, 3:226
reporting, 3:70–71
accrued interest, 1:374–375; 5:409–413
accrued revenue, 3:70
accumulated depreciation, 3:44
accumulated other comprehensive income, 3:242–243
Acer Inc., 3:323–325; 5:209
ACH.
acid-test ratio,
AD curve.
active management
Advisers, selecting, 1:153
Aegis Value Fund, 1:431
aerospace industry, governmental influences on, 3:225–226
AFD. see average fixed cost
AFDB. see African Development Bank affiliated stockholders, as takeover defense, 4:33
affirmative covenants, 3:601; 5:308, 622
AFFO. see adjusted funds from operations
Afghanistan, 3:114
Africa. see also specific regions and countries
debt and equity outstanding, 5:348
and IFRS, 3:115
industrial comparative ratio, 5:613
institutionally owned real estate, 6:185
terms of trade for, 2:329, 330
African Development Bank (AFDB), 2:405; 5:370
after-tax cost of debt, 4:81
after-tax nominal return, 4:328
agency bonds, 5:370–371
agency relationships, 4:11; 5:61. see also principal–agent relationship
agency RMBS, 5:486–487, 499. see also collateralized mortgage obligations (CMOs); mortgage pass-through securities
agent options, 1:178
agents, trust, 5:475
aggregate demand (AD), 2:133–144
and AD curve, 2:141–144
and business cycle, 2:200–201
defined, 1:132
and fiscal policy, 2:294–295
and imports/exports, 2:330–331
and inflationary gap, 2:163–164
investment strategies for decrease in, 2:160–161
investment strategies for increase in, 2:164
IS curve, 2:133–140
LM curve, 2:140–141
and recessionary gap, 2:159–163
shifts in, 2:146–153
capitalization of interest costs,
and financial reporting issues, 3:682
intangible assets, 3:466–469
property, plant, and equipment, 3:463–466
acquisition method of accounting, 3:468
action lag, 2:310
actions. see also Investment Analysis, Recommendations, and Actions
[Standard of Professional Conduct V]
investment
fair dealing in, 1:107–108
firm policies on, 1:101–102
impact of, 1:36–37
personal, 1:79
unethical, 1:53
active management
of alternative investments, 6:150, 155
of portfolios
and capital market line, 4:392
information-motivated trading in, 5:10
manager performance in, 5:129
manager selection for, 5:116
security market indices in, 5:94
of stock mutual funds, 4:258
active returns, 5:116
active strategies
borrowing, 4:218
short-term investing, 4:197–198
activist shareholders, 4:165; 6:163. see also shareholder activism
activity ratios, 3:340–347
calculation of, 3:341–343
in company analysis, 5:230–231
defined, 2:218; 3:341–342
evaluation of, 3:344–347
interpretation of, 3:343–347
fixed asset turnover, 3:346
inventory turnover and DOH, 3:343–344
payables turnover and number of days of payables, 3:345
receivables turnover and DSO, 3:344–345
total asset turnover, 3:346
working capital turnover, 3:346
AD. see aggregate demand
ADB. see Asian Development Bank
ADG, 3:344–345
Advertising Guidelines (GIPS Section III)
defined, 1:254
information included in, 1:254
advisers, selecting, 1:153
Aegis Value Fund, 1:431
aerospace industry, governmental influences on, 3:225–226
ADF. see African Development Bank affiliated stockholders, as takeover defense, 4:33
affirmative covenants, 3:601; 5:308, 622
AFFO. see adjusted funds from operations
Afghanistan, 3:114
Africa. see also specific regions and countries
debt and equity outstanding, 5:348
and IFRS, 3:115
industrial comparative ratio, 5:613
institutionally owned real estate, 6:185
terms of trade for, 2:329, 330
African Development Bank (AFDB), 2:405; 5:370
after-tax cost of debt, 4:81
after-tax nominal return, 4:328
agency bonds, 5:370–371
agency relationships, 4:11; 5:61. see also principal–agent relationship
agency RMBS, 5:486–487, 499. see also collateralized mortgage obligations (CMOs); mortgage pass-through securities
agent options, 1:178
agents, trust, 5:475
aggregate demand (AD), 2:133–144
and AD curve, 2:141–144
defined, 1:132
and fiscal policy, 2:294–295
and imports/exports, 2:330–331
and inflationary gap, 2:163–164
investment strategies for decrease in, 2:160–161
investment strategies for increase in, 2:164
IS curve, 2:133–140
LM curve, 2:140–141
and recessionary gap, 2:159–163
shifts in, 2:146–153
capitalization of interest costs,
ascent economies, trade-to-GDP ratio for, 2:332
Advanced Micro Devices, 5:209
adverse audit opinion, 3:28
adverse selection, with insurance, 5:34
advertisements. see also GIPS
Advertising Guidelines (GIPS Section III)
defined, 1:254
information included in, 1:254
advisers, selecting, 1:153
Aegis Value Fund, 1:431
aerospace industry, governmental influences on, 3:225–226
ADF. see African Development Bank affiliated stockholders, as takeover defense, 4:33
affirmative covenants, 3:601; 5:308, 622
AFFO. see adjusted funds from operations
Afghanistan, 3:114
Africa. see also specific regions and countries
debt and equity outstanding, 5:348
and IFRS, 3:115
industrial comparative ratio, 5:613
institutionally owned real estate, 6:185
terms of trade for, 2:329, 330
African Development Bank (AFDB), 2:405; 5:370
after-tax cost of debt, 4:81
after-tax nominal return, 4:328
agency bonds, 5:370–371
agency relationships, 4:11; 5:61. see also principal–agent relationship
agency RMBS, 5:486–487, 499. see also collateralized mortgage obligations (CMOs); mortgage pass-through securities
agent options, 1:178
agents, trust, 5:475
aggregate demand (AD), 2:133–144
and AD curve, 2:141–144
defined, 1:132
and fiscal policy, 2:294–295
and imports/exports, 2:330–331
and inflationary gap, 2:163–164
investment strategies for decrease in, 2:160–161
investment strategies for increase in, 2:164
IS curve, 2:133–140
LM curve, 2:140–141
and recessionary gap, 2:159–163
shifts in, 2:146–153
capitalization of interest costs,
aggregate demand curve (AD curve)
example, 2:143–144
features of, 2:141
interest rates and income effects, 2:142–143
investment strategies based on, 2:167–168
aggregate expenditures, 2:115
aggregate income, 2:115–132
in economy, 2:115–116
and expenditures, 2:133–140
in gross domestic product, 2:116–132
components of, 2:123–127
external sector, 2:126–127
government sector, 2:125–126
household and business sectors, 2:124
measuring, 2:116–119
nominal and real, 2:120–123
and other income measures, 2:127–132
values of goods and services, 2:119–120
real personal, 2:237
aggregate indices, fixed-income, 5:99
aggregate output, 2:115–132
in economy, 2:115–116
in gross domestic product, 2:116–132
components of, 2:123–127
external sector, 2:126–127
government sector, 2:125–126
household and business sectors, 2:124
measuring, 2:116–119
nominal and real, 2:120–123
and other income measures, 2:127–132
values of goods and services, 2:119–120
aggregate price, supply of money and, 2:265–266
aggregate real personal income, 2:237
aggregate supply (AS) and AS curve, 2:144–146
defined, 2:132
and global recession, 2:161–163
and imports/exports, 2:330–331
investment strategies for shifts in, 2:165–166
long-run, 2:144–146, 155–157
in perfectly competitive market, 2:77
in real business cycle models, 2:214–215
shifts in, 2:146–147, 153–158
shifts in demand and, 2:166–169
short-run, 2:144–145, 153–154
and stagflation, 2:165–166
aggregate supply curve (AS curve) about, 2:144–146
investment strategies based on, 2:167–168
long-run, 2:144–146
short-run, 2:144–145, 153–154
aggressive accounting choices and biased application of standards, 3:658–659
conservative vs., 3:654–659
defined, 3:646
and non-GAAP measures in reports, 3:646, 648–649
aging schedule, 4:206–207
AGM, see annual general meeting
Agnellis Industries, 5:480–481
agriculture, 2:64–65; 6:194
AIFMD, see Alternative Investment Fund Managers Directive
AIG, see American International Group
AIMR, see Association for Investment Management and Research
AIMR Performance Presentation Standards (AIMR-PPS®), 1:224
Airbus
governmental influences on, 5:225–226
in method of comparables, 5:268
strategic analysis with, 5:207–209, 218
Aircastle Limited, 5:27
aircraft manufacturing industry, strategic analysis of, 5:207–208, 218
airline industry
asset-based equity valuation for, 5:276
life-cycle stage and business cycle sensitivity, 5:227–228
structure and pricing in, 2:62
Air Liquide, 1:422
Air Products and Chemicals, 5:209
AirTran Airways, 2:84
Akerlof, George A., 1:671
Alcatel-Lucent, 3:433–439
consolidated balance sheet, 3:434–435
consolidated income statement, 3:433–434
notes to consolidated financial statements, 3:435–436
solvency ratio evaluation, 3:355
Alcoa, 5:274
Alcon, 3:717
Algeria, 2:429
Alibaba, 4:12, 32
Allianz SE, 1:622; 5:165
all-in fees, 1:261
allocation(s)
asset, 1:547–549
minimum lot, 1:112–113
with safety-first rules, 1:547–549
trade allocation procedures, 1:109, 110
transaction, 1:111–112
allocationally efficient financial systems, 5:59
allocative efficiency, 5:116n.2
all-or-nothing orders (AONs), 5:47
allowance for bad debts, 3:44
capital consumption, 2:129
for doubtful accounts, 3:687
for loan loss reserves, 3:687
Aloha Airlines, 4:300n.30
alpha, 5:94
Alpha Natural Resources, 4:408–409
alternative hypothesis, 1:618–619, 645
alternative inventory costing, 3:172–173, 688
Alternative Investment Fund Managers Directive (AIFMD), 6:171
alternative investments, 6:149–213
categories of, 6:154–155
collectibles, 6:201–202
commodities, 6:193–200
derivatives and indices, 6:194–195
investment vehicles, 6:195–196
performance and diversification benefits, 6:196–197
prices of, 6:197–200
common characteristics, 6:150–154
defined, 6:149–150
hedge funds, 6:158–174
about, 6:158–161
diversification benefits, 6:165
due diligence, 6:173–174
fees and returns, 6:166–169
investment strategies for, 6:162–164
and leverage, 6:170
and redemptions, 6:171–172
valuation issues, 6:172–173
historical records of, 6:151–152
infrastructure investments, 6:200–201
markets for, 5:15–16
portfolio diversification with, 6:157–158
practice problems, 6:210–211
private equity, 6:175–184
diversification benefits, 6:181–183
due diligence, 6:184
investment strategies, 6:177–181
portfolio company valuation, 6:183–184
structure and fees, 6:176–177
real estate, 6:184–193
forms of investment, 6:186–187
investment categories, 6:187–189
performance and diversification benefits, 6:189–191
risks with, 6:193
valuation, 6:191–192
returns from, 6:155–157
risk management, 6:202–206
due diligence with, 6:204–206
process, 6:203–204
risk–return measures, 6:204–205
security market indices for, 5:101–104
solutions to problems, 6:212–213
structures for, 6:158
and traditional investments, 6:157–158
alternative trading systems (ATSs), 5:29–30
Altria Group Inc., 3:499
Amaranth Advisors LLC, 6:197
AMC, see Asset Manager Code of Professional Conduct
Ameren, 5:252
American Association of Individual Investors (AALL), 1:707
American depositary receipts (ADRs), 1:674; 5:167–168
American depositary shares (ADSs), 5:167
American Express, 1:542n.18
American International Group (AIG), 4:159; 6:32, 33
American options (American-style options)
callable, 1:537; 5:328
defined, 6:26, 85
pricing, 6:104–107
putable, 5:330n.6
Artemis, Seth, 4:102
Armenia, 3:114
Armitage, Seth, 4:102
Arms index, adjustable-rate mortgages, 3:181
Arnett, Robert, 4:172n.28
Arthurs Andersen, 3:102
Articles of Incorporation, 3:102
Arts, see aggregate supply
Asia 50 ADR Index Fund, 5:169
Asian call options, 1:556–557
Asian Development Bank (ADB), 5:370
Asian Market Neutral Composite, 1:292
Asian-Pacific Aggregate Bond Index, 5:355
Asian-Pacific Stock Index, 5:370
Asian Market Neutral Composite, 1:292
Asian-Pacific Aggregate Bond Index, 5:355
Asia Pacific Association for Fiduciary Studies, 1:229
ask prices, 5:44; 6:10n.3, 172
ask sizes, 5:44
ASML Holdings NV, 1:422; 5:200–202
Asociación Española de Presentación de Resultados de Gestión, 1:229
asset(s), see also investment
characteristics of assets
average age of depreciable, 3:508–510
on balance sheets, 3:212, 236–239
classification of markets, 5:14–16
as collateral, 5:622
in Conceptual Framework, 3:119
Currencies, 5:19–20
current
and accounting profit vs. taxable income, 3:551–552
on balance sheets, 3:215, 217–224
defined, 3:46
debt-to-assets ratio, 3:353, 354, 628
deferred tax
accounting choices about, 3:676–677
accounting profit vs. taxable income for, 3:552–555
changes in tax rates, 3:559–560
current assets, 3:224
defined, 3:551
and timing, 3:550
unused tax losses/credits, 3:565–566
defined, 3:9, 43, 212
financial, 5:14
income tax bases of, 3:556–557
intangible, 5:274–276
acquisition of, 3:466–469
on balance sheets, 3:231–236
from business combinations, 3:468–469
capitalization of, 3:681–682, 687
depreciation/amortisation, 3:175
depreciation/amortisation of, 3:175, 231
identifiable, 3:232–233
impairment of, 3:231, 496–497
on income statements, 3:178
internally-developed, 3:466–468
long-lived, 3:862
not from business combinations, 3:466
and research, 3:232, 467
lease versus buy decision for, 3:513–516
liquid asset requirement, 3:371, 372
liquidity and sales of, 5:635
long-lived (see long-lived assets)
market efficiency and prices of, 5:118–120
in markets, 5:14–20
non-current
on balance sheets, 3:215, 228–239
defined, 3:46
physical, 5:14
quick, 4:186
real, 5:14, 26–28
recoverable amount of, 3:495
return on, 3:328, 357–358, 413
risk-free, 4:365–368
and capital allocation line, 4:365–366
and capital market line, 4:393–395
combining risky assets with, 4:389–392
and homogeneity of expectations assumption, 4:391–392
two-fund separation theorem, 4:366–367
utility theory and selection of, 4:347–350
risk of two-asset portfolio, 4:332–333
risk
combining risk-free assets with, 4:389–392
covariance and correlation of risks, 4:351–353
efficient frontier of, 4:365
importance of correlation of risks in portfolio, 4:356
portfolio return, 4:350
portfolio risk, 4:350–356
risk and return relationship, 4:353–355
utility theory and selection of, 4:347–350
security, 5:16–19
equities, 5:17–18
fixed-income, 5:17
pooled investments, 5:18–19
securitized, 5:470
tradable, 4:393
underlying, 5:20
variance of return for single, 4:330
asset age ratios, 3:506–510
asset allocation
indicators as proxies for asset classes in, 5:94
in portfolio management, 4:249
safety-first rules for, 1:547–549
strategic, 4:457–465
for European charity, 4:467–469
objective of, 4:460–461
for private investor, 4:464–465
specifying asset classes for, 4:457–459
tactical, 4:465–466
asset-backed securities (ABSs), 5:469–521
about, 5:469–470
auto loan, 5:504–507
collateral backing for, 5:306
collateralized debt obligations, 5:508–511
structure, 5:509
transaction example, 5:509–511
commercial mortgage-backed securities, 5:499–504
balloon maturity provisions, 5:501
call protection, 5:500–501
credit risk, 5:500
structure, 5:500–504
as contingent claims, 6:33–35
creation of, 5:31–32

Asia, see also specific countries
capitalization level and contributions to global GDP, 5:151
current account imbalance, 2:372
debt and equity outstanding, 5:348
discipline for financial reporting quality in, 3:661
effects of global recession, 2:161
and IFRS, 3:114
institutionally owned real estate, 6:185
natural resources, 2:174
regular cash dividends, 4:153
returns on REITs, 6:191
reverse stock splits, 4:159
terms of trade, 2:329
trade-to-GDP ratio, 2:332

and market efficiency, 5:123
and put–call parity, 6:97
and relative valuation, 6:47–49
and replication, 6:68–69
risk, 6:50n.24
with stocks and risk-free bonds, 6:47–49
triangular, 2:415
arbitrage-free pricing, 6:70
arbitrage pricing theory (APT), 4:427
arbitrageurs, 5:34–36, 123
ArcelorMittal, 1:421; 5:618–619, 621
Archer Daniels Midland Company (ADM), 1:725, 729; 2:101
Argentina
discipline for financial reporting quality in, 3:662
exchange rate regime, 2:428, 431–432
foreign direct investment, 2:333, 334
IFRS adoption, 3:114
inflation-linked bonds, 5:324, 368
MERCOSUR, 2:354
MSCI multi-market index, 5:96
non-sovereign government debt, 5:646
Ariane space program, 5:225
arithmetic mean, 1:402–406
and coefficient of variation, 1:439–440
as cross-sectional mean, 1:403–405
defined, 1:396n.9, 402
and geometric, 1:416–419
and median, 1:408–409
as population mean, 1:402–403
properties, 1:405–406
sample mean, 1:403–405
using, 1:454–455
and weighted mean, 1:413n.19
arithmetic return, 4:320
Armenia, 3:114
Armitage, Seth, 4:102
ARMs, see adjustable-rate mortgages
Arms index, 1:710–712
Arngrove Group Holdings, 3:181
Arnott, Robert, 4:172n.28
Arthur Andersen, 1:6
Articles of Incorporation, 1:47
Art Market Research, 6:202
Artpiece, 6:202
AS. see aggregate supply
ASA, 3:685
Asahi Breweries, 3:709
ascending triangle pattern, 1:694
AS curve. see aggregate supply curve
ASEAN. see Association of Southeast Asian Nations
Asia. see also specific countries
capitalization level and contributions to global GDP, 5:151
current account imbalance, 2:372
debt and equity outstanding, 5:348
discipline for financial reporting quality in, 3:661
effects of global recession, 2:161
and IFRS, 3:114
institutionally owned real estate, 6:185
natural resources, 2:174
regular cash dividends, 4:153
returns on REITs, 6:191
reverse stock splits, 4:159
terms of trade, 2:329
trade-to-GDP ratio, 2:332
asset-backed securities (ABSs) (continued)
credit card receivable, 5:507–508
defined, 5:470
economic benefits of securitization, 5:470–472
in global debt, 5:347, 348
legal identity of issuers, 5:304
non-mortgage asset-backed securities, 5:504–508
auto loan ABS, 5:504–507
credit card receivable ABS, 5:507–508
as pooled investments, 5:19
practice problems, 5:515–518
repayment sources for, 5:305
residential mortgage-backed securities, 5:486–499
collateralized mortgage obligations, 5:492–499
mortgage pass-through securities, 5:487–492
non-agency residential mortgage-backed securities, 5:499
residential mortgage loans, 5:481–486
amortization schedule, 5:483–484
interest rates, 5:482–483
lender’s rights in foreclosure, 5:484–485
maturity, 5:482
prepayment options and penalties, 5:484
securitization, 5:470–481
economic and market benefits, 5:470–472
parties’ roles in transaction, 5:474–476
special purpose entities, 5:478–481
structure of securitization, 5:477–478
transaction example, 5:472–474
solutions to problems, 5:519–521
as structured financial instruments, 5:379
traditional bonds vs., 5:297
asset-based loans, 4:218
asset-based valuation approach for equity, 5:274–278
for airline industry, 5:276
defined, 5:247
for family-owned laundry, 5:275
other models vs., 5:246–248, 276–278
for restaurant, 5:275–276
for private equity, 6:184
for REITs, 6:192
asset beta, 4:29–95
asset class(es)
adding, to investment opportunity set, 4:363
correlation matrix, 4:458–459
correlation of risk among, 4:359
defining, 4:456
diversification with, 4:360
historical returns, 5:640–641
nominal returns, 4:334–336
real returns, 4:335–336
risk and return of, 4:334, 337
security market indices as proxies for, 5:94
in strategic asset allocation, 4:457–459
asset management company, sample presentation of, 1:271–272
Asset Manager Code of Professional Conduct (AMC), 1:34, 51, 153
asset price(s)
artificial volatility in, 1:94–96
capital flows, 2:436
and head and shoulders patterns, 1:688–691
normal distribution as model for, 1:543
and oscillators, 1:700
trends in, 1:671–673
and volume, 1:681–682
asset risk premium, 4:242
assets under management (AUM) alternative investments, 6:149–150
global, 6:151
growth of, 6:159–160
hedge funds, 6:159–160
institutionally owned real estate, 6:185
by strategy, 6:162
asset swaps, 5:439
asset turnover
and financial reporting quality, 3:690
fixed, 3:342, 364, 261–510
and volume, 3:342, 364
asset utilization ratios, 3:341. see also activity ratios
asset weighing, 1:123
Assicurazioni Generali, 1:422
assignments of accounts receivable, 4:218
Assirevi, 1:229
Associação Portuguesa de Analista Financieros, 1:229
associate businesses, investments in, 3:565
Association for Investment Management and Research (AIMR), 1:224
Association for Savings and Investment, 2:279
Association of Southeast Asian Nations (ASEAN), 2:70
Association of Hungarian Investment Fund and Asset Management Companies, 1:229
Association of Southeast Asian Nations (ASEAN), 2:284
L’Associazione Bancaria Italiana, 1:229
L’Associazione Italiana degli Analisti Finanziari, 1:229
Assogiustioni, 1:229
assumptions
CAPM, 4:409–411, 422n.6
cost flow, 3:673–674
Cournou, 2:86–87
for financial reports, 3:120
Gordon growth model, 5:257
heterogeneous beliefs, 4:421, 424–425
homogeneity of expectations, 4:391–392, 210–411, 426
infinite divisibility, 4:111
in technical analysis, 1:670–672
Astra International, 1:553–554
AstraZeneca PLC, 4:320
ASUs, see Accounting Standards Updates
asymptotic properties, estimators’, 1:586
ATC, see average total cost
ATSs, see alternative trading systems
AT&T
breakup of monopolistic structure, 2:101
credit curves for, 5:632–633
industry classification of, 5:192
and industry structure, 5:217
restricting charges, 3:667
at the money, 6:27, 87
auctions
defined, 5:358
public offerings of bonds in, 5:358, 360–362
single price, 5:54
audit committee, 4:22–24
audit function, 4:17
auditors, financial reporting quality and, 3:663–664
audits
adverse opinions, 3:28
auditor’s reports, 3:27–30
qualified and unqualified opinions, 3:28
standards for, 3:27
audit systems, 4:22
AUM. see assets under management
Aussie exchange rate, 2:410
Aus Australasia, 6:185
Australia
bonds outstanding, 5:352, 358
business investment, 2:173
commodities and economy of, 1:720
current account imbalance, 2:372
cyclically adjusted budget deficit, 2:309
disinflation, 2:223
domestic and international debt securities, 5:313
equity risk premiums, 4:87
exchange rate regime, 2:429
export subsidies, 2:351
fixed price tender offers, 4:165
foreign bonds, 5:311
foreign investment, 5:164
GIPS country sponsor, 1:228
government liabilities/debt, 2:300
government revenues/expenditures, 2:295, 296
IFRS adoption, 3:115
inflation-linked bonds, 5:324, 325
inflation targeting, 2:279, 281
liability representations on balance sheets, 3:15
mean and standard deviation of stock returns, 1:440, 441
in MSCI EAFE, 1:404
MSCI multi-market index, 5:96
natural resources, 2:174
net borrowing/lending, 2:297
real equity returns, 1:396
residential mortgage loans, 5:483
returns on bonds and bills, 5:152–153
on equities, 5:152–153
risk tolerance and equity ownership, 5:154
sovereign bonds, 5:368
Australia and New Zealand Standard Industrial Classification (ANZSIC), 5:196
Australian Securities Exchange, 5:196
Australian dollar
AUD/HKD exchange rate, 2:396–398, 402–404
currency code, 2:393
exchange rate quotes with, 2:410, 411n.4
international bonds outstanding in, 5:349
trade balance and exchange rate for, 2:442–445
USD/AUD currency pair, 2:408
Australian Federal Reserve, 2:281
Australian Securities Exchange, 5:154
Austria
employee laws in, 4:19
EU membership, 2:354n.18
government debt, 2:254
MSCI multi-market index, 5:96
public sector spending, 2:255
total returns, 1:404, 408, 421
Austrian school of economic thought, 2:210
autarkic price, 2:330, 341
autarky, 2:330, 341
authorities, investment policy, 4:198
authorized participants (APs), 5:19
auto loan asset-backed securities, 4:10
available-for-sale securities, 5:504–507
Automated Clearing House (ACH), 4:204
automatic stabilizers, 2:136, 296, 309–310
automobile industry
and GDP, 2:118–119
monopolistic competition in, 2:82, 96
similar companies in, 5:189
available-for-sale securities, 5:237
as financial assets, 2:327–239
on income statements, 2:300
AVC, see average variable cost
average accounting rate of return (AAR), 4:53–54
average age of depreciable assets, 5:308–510
average bank prime lending rate, 2:237
Average Consumer Expectations
for Business and Economic Conditions, 2:237
average costs
average fixed cost, 2:31–35
average total cost
with economies of scale, 2:45–46
and other costs/output, 2:31–35
in perfect competition vs. monopoly, 2:36–37
average variable cost defined, 2:30
in perfect competition vs. monopoly, 2:36–37
and shutdown decision, 2:39–40
in perfectly competitive markets, 2:36–37, 75–76
average daily rate, 3:373
Average Duration of Unemployment, 2:237
average fixed cost (AFC), 2:31–35
average inventory days outstanding, see days of inventory on hand (DOH)
average inventory period, 4:187
average life, mortgage pass-through securities, 5:490–491
average product of labor (APL), 2:25–28
average propensity to consume (APC), 2:135
average quote, for hedge fund valuation, 6:172
average revenue (AR), 2:35
average total cost (ATC)
with economies of scale, 2:45–46
and other costs/output, 2:31–35
in perfect competition vs. monopoly, 2:36–37
average variable cost (AVC) defined, 2:30
in perfect competition vs. monopoly, 2:36–37
and shutdown decision, 2:39–40
average weekly claims for unemployment insurance, 2:236
average weekly hours, manufacturing, 2:236
A.W. Jones & Co., 4:261
AXA, 1:422
Azerbaijan, 2:428; 3:114
B
Baby Boom, 5:223, 224
backfill bias, 6:151n.3
back simulation, 1:560–561
back-testing, 3:728–729
backup lines of credit, 5:373
backwardation, 6:199
bad debts, allowance for, 3:44
Bahamas, 2:287
Bahrain, 5:96
Baidu, 3:715, 716; 4:318
Baker, James, 2:432
Baker Hughes, 5:219–221
balanced budget multipliers, 2:307–308
balanced budgets, 2:296
balanced funds, 4:255–256, 258–259
Balanced Growth Composite, 1:291
balance of payments (BOP) system, 2:361–373
accounts in, 2:362–363, 369–371
components of, 2:363–365
imbalances since 1996, 2:371–373
pairs of transactions in, 2:366–368
for United States, 2:364–365
balance of trade deficit, 2:126, 330
balance sheet equation, 3:12
balance sheet ratios, 2:254–256
balance sheets, 2:211–263
about, 2:321
accounts on, 3:47–48, 49
analysis of, 3:13–16, 246–256
balance sheet ratios, 2:254–256
common-size, 2:246–254, 331
334–336
and capitalising vs. expensing of costs, 3:469
and cash flow statements, 3:219, 280–281
cash on, 5:614, 635
classified, 3:216
components of, 3:213–215
consolidated
Alcatel-Lucent, 3:434–435
Micron Technology, Inc., 3:571–572
Volvo Group, 3:421–422
current assets, 3:217–224
Apple Inc., 3:218
cash and cash equivalents, 3:218–219
inventories, 3:221–223
marketable securities, 3:219
other, 3:223–224
SAP Group, 3:217–218
trade receivables, 3:219–221
current liabilities, 3:224–228
Apple Inc., 3:225
delayed revenue analysis, 3:226–228
SAP Group, 3:225
defined, 3:12, 46, 212
equity, 3:241–246
components of, 3:242–244
statement of changes in equity, 3:244–246
financial assets on, 3:236–239
format of, 3:215–217
information provided by, 3:67–68
interest costs, 3:474
inventories, 3:221–223
leases, 3:516–517
LIFO liquidation, 3:414–415
non-current assets, 3:215, 228–239
Apple Inc., 3:229
financial assets, 3:236–239
goodwill, 3:233–236
intangible assets, 3:231–236
investment property, 3:230–231
property, plant, and equipment, 3:229–230
SAP Group, 3:228–229
non-current liabilities, 3:239–241
Apple Inc., 3:240
deferral tax liabilities, 3:241
long-term financial liabilities, 3:240–241
SAP Group, 3:239–240
practice problems, 3:259–261
quality of reporting on, 3:673–682
solutions to problems, 3:262–263
unclassified, 3:56
vertical common-size, 3:331
balloon maturity provisions, 5:501
balloon payments, 5:316
balloon risk, 5:501
Bancel, Franck, 4:104
Banco Central del Uruguay, 3:107n.9
BancoFinsur, 5:505
Banco Santander, 5:304
Bangladesh, 5:321
bank certificates of deposit (CDs), 4:194
bank discount basis, 1:373
bank discount yield, 1:373–374, 376
banker's acceptances (BAs), 4:194, 216;
5:426–427
bank guarantees, 5:307
Banking and Finance Commission, 2:270
bank loans, 5:347, 348, 371–372
Bank of Canada, 2:181, 281, 432
Bank of England
in FX market, 2:432
independence of, 2:280
monetary policy, 2:268, 271, 281, 427
quantitative easing, 2:290–291, 315
two-week repo rate, 2:276
Bank of International Settlement, 5:161
Bank of Japan
in FX market, 2:405, 432
monetary policy, 2:284, 291–293
and money measures in Japan, 2:262
Bank of Korea, 2:273, 281
Bank of Montreal, 5:166, 209
bank runs, 4:291n.24
bankruptcy
and business risk, 4:141–143
priority of claims in, 5:595–596
regulations for bankrupt traders, 5:63
and special purpose entities, 5:479–481
and technical analysis, 1:674
bankruptcy risk, 4:29
banks
aggregate demand and reserves of, 2:149–151
interest rate, 2:152–153
benefits of securitization for, 5:471
as brokers, 5:29
capital adequacy ratios, 3:372
credit cycle assessments by, 5:594n.7
credit from, 4:215–216
depository, 5:166
as financial intermediaries, 5:32, 33
in FX market, 2:406–407
portfolio management for, 4:246
regulation of, 3:103
risk management for, 4:272
short-term funding for, 5:382–388
repurchase and reverse repurchase agreements, 5:384–387
retail deposits, 5:383
wholesale funds, 5:383–384
bank sweep services, 4:194
Barbados, 2:286
bar charts, 1:675–676
Barclays Capital, 5:98, 625–626
Barclays Capital US Aggregate Bond Index, 5:99, 487n.9
Barclays plc, 1:724–725, 729
Barings Bank, 4:290
Barrick Gold, 5:274
barriers to entry
in credit analysis, 5:608
and market structure, 2:63, 93
in strategic industry analysis, 5:206–208, 219
barriers to exit, 5:208
barriers to success, 5:207
Baron’s, 1:707
barter economy, 2:119, 257
barter transactions, revenue recognition for, 3:163, 689
BAs, see banker’s acceptances
base currency, 2:393, 410
Basel Accords, 3:103
Basel Committee on Banking Supervision, 3:103, 104, 107
Basel III global framework for bank supervision, 5:597n.12
Baseline (database), 3:342
base metals, as commodities, 6:194
base prospectus, 5:474n.3
base rates, 2:276
BASF Group
disclosure of leases, 3:612–613
globalization of share ownership, 5:165
market capitalization, 1:422
merger involving, 2:101
basic earnings per share, 3:186–188, 369, 370
Basic Materials and Processing sector, 5:193
basis point, 5:414
defined, 5:299
price value of, 5:554
basis point value (BPV), 5:554
basis swaps, 6:24
baskets of listed depositary receipts (BLDRs), 5:169
BATS, 5:30
Baxter-FX, 5:30
Bayer, 1:422
Baye’s formula, 1:474, 502–506
BBA, see British Bankers’ Association
BBVA, 1:422
BCO Santander, 1:422
bear bonds, 5:312
bearish rectangles, 1:696
bear markets
Elliott waves in, 1:715
forecasting, 1:558–560
beer industry, 2:83, 84
behavior
consumer, 2:204–206
external trade sector, 2:207–209
herding, 5:137
housing sector, 2:206–207
pre-dissemination, 1:109
behavioral biases, 1:11–12; 5:137–139
behavioral finance, 5:136–139
behind the market (term), 5:45
“Beige Book,” 2:240
Belarus, 2:428
Belgian Asset Managers Association, 1:228
Belgium
banking supervision, 2:270
customs union, 2:354
equity risk premiums, 4:87
in EU, 2:354n.18
exchange rate regime, 2:428
floating-rate bonds, 5:367
GIPS country sponsor, 1:228
government debt, 2:254
MSCI multi-market index, 5:96
public sector spending, 2:255
returns
on bonds, bills, and equities, 5:153
real equity, 1:396
total, 1:404, 408
Belize, 2:287
benchmark description
defined, 1:261
Disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
benchmark issue, 5:366
benchmark rate, 4:200; 5:414, 437–439
benchmarks
defined, 1:261
Disclosure (GIPS Section I.4), 1:237, 238
GIPS Advertising Guidelines (GIPS Section III), 1:255
incentives for managers to meet, 3:659
and investment policy statements, 1:117
Presentation and Reporting (GIPS Section I.5), 1:239, 240
Private Equity (GIPS Section I.7), 1:246, 247
PSA prepayment, 5:489
Real Estate (GIPS Section I.6), 1:244
security market indices as, 5:94
spread over, 5:414
Verification (GIPS Section IV), 1:258, 259
benchmark spread, 5:438
benchmark yield, 5:570
benefits yield curve, 5:439–441
beneficial ownership, 1:182, 183
Berkshire Hathaway, Inc., 5:160, 176
Bermuda-style calls, 5:329
Bermuda-style puts, 5:330
Bernanke, Ben, 2:290
Bernoulli, Jakob, 1:528
Bernoulli random variable(s), 1:528–529
Bernoulli trials, 1:528
best bid, 5:44
best efforts offering, 5:51, 358
benefit-generating models, 5:44
Best in Class, 5:44
Best Practice Guidelines Governing Analyst/Corporate Issuer Relations (CFA Institute), 1:57
beta, 4:402–409
asset, 4:92–95
calculation and interpretation, 4:405–406
and CAPM, 4:406–407, 426
estimating, 4:90–97
with CAPM, 4:406–407
inheriting asset betas, 4:94–95
pure-play method, 4:93–95
and expected return, 4:407–409
levering and unlevering, 4:92
return-generating models, 4:402–403
risk budgeting with, 4:284
as risk metric, 4:298; 6:155
and security characteristic line, 4:420
and security market indices, 5:94
B+H Ocean Carriers, 3:600–603
BHP Billiton, 3:715, 716; 5:274
biased accounting choices, 3:646–654
biases. see also sampling biases in accounting standard application, 3:658–659
backfill, 6:151
behavioral, 1:11–12; 5:137–139
boom phase (business cycle), 2:199, 201
BOP system. see balance of payments system
borrowers, size and short-term strategy of, 4:217
borrowing
Borrowing Costs (IAS 23), 3:474n.11 borrowing rates, effects on leveraged portfolios, 4:398–400
Bosnia and Herzegovina, 2:428
Boston Scientific, 5:213
Botswana, 3:115; 5:96
Bundesverband Investment und Asset Management, 1:228 bundled fees Calculation Methodology (GIPS Section I.2), 1:234 defined, 1:261 Disclosure (GIPS Section I.4), 1:237 Presentation and Reporting (GIPS Section I.5), 1:239 Wrap Fee/SMA Portfolios (GIPS Section I.8), 1:248–249
Bunds, 5:298, 365, 366, 626
Burlington Northern, 5:209
Burns, Wesley Clair, 2:196
Business Combinations (IFRS 3), 3:468n.9 business confidence, 1:149, 151
Business Cycle and Dating Committee, 2:199
business cycles, 2:195–249 defined, 2:196

business cycle theories, 2:209–217
Austrian school, 2:210
Keynesian school, 2:210–211
Monetarist school, 2:213
Neoclassical school, 2:209–210
New Classical school, 2:213–217
business entities, distinct, 1:232, 263
business environment, in industry analysis, 5:188
business expectations, aggregate demand and, 2:149
business relationships, conflicts of interest and, 1:176, 180
business risk
components of, 4:124
for creditors and owners, 4:141–143
defined, 4:91
financial risk, 4:133–136
and leverage, 4:124–132
operating risk, 4:126–132
sales risk, 4:124–125
business sector (corporate sector), 2:124;
5:347
business segments, financial analysis for, 3:377–379
business spending, 2:149, 198
business strategy, financial performance and, 3:705–709
business taxes, SRAS and, 2:154, 156
buy-and-hold strategies, 1:558–560;
4:320n.2
buyback, 4:163. see also share repurchases
buyers. see also consumer(s)
derivatives, 6:7
power of, 5:205, 608
buying stock (as strategy), 6:121–123
buyout funds, 4:263
buy-side clients, 1:55
buy-side firms, 4:251
buy-side participants, FX market, 2:270–274
BVPS, see book value per share
BVSP, see Brazilian Bovespa Index
Bylaws and Rules of Procedure for Professional Conduct (Rules of Procedure), 1:33, 47

C
CAC 40 index, 1:414; 4:392
Cadbury, 5:209, 219–221
Cadbury Report, 4:7
CAIA Association. see Chartered Alternative Investment Analyst Association
Caisse de dépôt et placement du Québec, 2:405
calculated statistical indices, 1:707–710
Calculation Methodology (GIPS Section I.2), 1:233–234
about, 1:230
recommendations
general, 1:234
for private equity, 1:248
for real estate closed-end fund composites, 1:244
requirements
general, 1:233–234
for private equity, 1:245
for real estate, 1:241–242
for real estate closed-end fund composites, 1:243
calendar anomalies, 5:131–132
California, 5:646, 647
callable bonds, 5:328–329, 377, 420
effective convexity of, 5:563
effective duration of, 5:541–542
interest rate risk with, 5:549–550
zero-coupon bonds as, 5:380
callable common shares, 5:158–159, 171
callable preference shares, 5:160, 171, 252
call markets, 5:54
call money rate, 5:41
call options (calls)
American, 1:537; 5:328; 6:105–107
Asian, 1:556–557
Bermuda-style, 5:329
covered, 6:130–133
defined, 5:24; 6:26, 85
as embedded options (see callable bonds)
in equity portfolios, 6:123–126
European and American call options, 5:329;
6:105
binomial option pricing with, 6:101–103
Black–Scholes–Merton model for, 1:561
exercise price of, 6:87, 88
at expiration, 6:86
minimum prices for, 6:91–93
payments on underlying and carrying costs for, 6:91
and risk-free rate of interest, 6:89
time to expiration for, 6:88
and value of underlying, 6:87
volatility of underlying for, 6:90
fiduciary, 6:95–96
make-whole, 5:328
margin transactions vs., 6:91–92
payoff from, 6:26–28
profits from, 6:27–28
standard long and short positions, 6:123–126
call premium, 5:328
call price, 5:328
call protection period, 5:328–329, 420
call provisions, 5:320
calls. see call options
call schedule, 5:238
Cambodia, 3:91
Cameroon, 3:115
Canada
ACH system, 4:204
auctions in, 5:360
banking supervision, 2:270
bank regulation, 3:103
bonds outstanding, 5:352, 358
business investment, 2:173
capitalization level and contributions to global GDP, 5:151
commodities in economy, 1:720
common law system, 4:27
consumption expenditures, 2:135
credit rating services, 5:598
disinflation, 2:223
domestic and international debt securities, 5:313
equity risk premiums, 4:87
exchange rate regime, 2:429
expected inflation, 2:274
foreign bonds, 5:311
in FX market, 2:405
GIPS country sponsor, 1:228
government spending, 2:125
gross domestic product, 2:117, 127–132
forecasts of, 2:180–181
GNP vs., 2:329
potential, 2:179, 180
IFRS adoption, 3:113
income trusts, 5:225
inflation-linked bonds, 5:324, 325
inflation targeting, 2:279, 281
international investments, 5:165
labor productivity, 2:177
liquidity representations on balance sheets, 3:15
MSCI multi-market index, 5:96
NAFTA, 2:354
NAICS system, 5:197
national debt, 2:301
real equity returns, 1:396
regular cash dividends, 4:153
residential mortgage loans, 5:482, 483
retractable term preferred shares, 5:253–254
returns on bonds and bills, 5:153
on equities, 5:153
risk tolerance and equity ownership, 5:154
say on pay, 4:118
securities backed by quasi-government entities, 5:386
share repurchases, 4:163, 165
sovereign bonds, 5:368
trade balance with US, 2:126, 127
Treasury bills, 1:303n.3, 375n.16
underground economy, 2:120
Canada–yen exchange rate, 2:408
Canadian Broadcasting Corporation, 1:414
Canadian dollar
CAD/USD currency pair, 2:408
in cross-rate calculations, 2:413–414
currency code, 2:393
echange rate quotes with, 2:408
international bonds outstanding in, 5:349
Canadian GAAP, 3:113
Canadian Investment Performance Committee, 1:228
candidacy in CFA program, referring to, 1:195–196
Candidate Pledge, 1:147, 191
Candidate Responsibility Statement, 1:47
candidates, CFA. see Responsibilities as a CFA Institute Member or CFA Candidate [Standard of Professional Conduct VII]
candlestick charts, 1:676–678
cannibalization, 4:47
Canon Inc., 3:269–270
capacity, 5:607–631
aggregate demand and utilization of, 2:149, 151
and company fundamentals, 5:609–613
and industry fundamentals, 5:609
and industry structure, 5:608
and issuer liquidity, 5:614
productive, 3:507
in strategic industry analysis, 5:211–212, 219
of Watson Pharmaceuticals, Inc., 5:614–621
capital
capital structure vs., 3:248
committed, 1:243, 244, 247, 262; 6:176
composite since inception paid-in
capital, 1:243, 244, 247
cost of (see cost of capital)
debt-to-capital ratio, 3:353, 354, 628; 5:612
development, 6:175
as factor of production, 2:24
financial
in Heckscher–Ohlin model, 2:346–347
and international trade, 2:328
in long-term economic growth, 2:171
human, 2:155, 172; 4:281n.12
net working, 5:614
paid-in, 1:247, 265
physical
aggregate supply, 2:156
defined, 2:135
and economic growth, 2:172–173
and labor productivity, 2:176
and long-term aggregate supply, 2:155
and private equity valuation, 6:184
proportions of, 4:77–78
raising equity, 5:9
requirements, 5:61–62
return on, 3:357, 358, 375
ROIC, 5:204
total invested, 3:713n.4
venture, 5:15, 162
WACC, 5:178, 204
working, 3:216, 346, 721n.7; 5:614, 635
capital account, BOP, 2:364, 436
capital adequacy ratios, for banks, 3:372
capital allocation, efficiency of, 5:13–14
capital allocation line. see also capital market line
defined, 4:347, 388
of optimal portfolio, 4:368–369
and optimal risky portfolio, 4:365–366
and portfolio selection, 4:347–350
for risk-free assets in portfolios of risky assets, 4:390
SML vs., 4:411–413
capital asset pricing model (CAPM), 4:409–428
applications, 4:414–425
capital budgeting, 4:414–415
estimate of expected return, 4:414–415
portfolio construction, 4:422–425
portfolio performance evaluation, 4:415–420
security characteristic line, 4:430–431
security selection, 4:421–422
assumptions of, 4:409–411
and beta/expected return, 4:407–409
cost of common equity, 4:85–88, 104–105
for cost of equity, 5:178
extensions, 4:427–428
Fama and French three-factor model vs., 5:133
limitations, 4:425–426
and portfolio construction, 4:422–425
required rate of return from, 5:251
security market indices as proxy, 5:94
security market line, 4:411–414
and expected return, 4:412–413
portfolio beta, 4:413–414
capital budget, planning of, 4:44
capital budgeting, 4:43–71
CAPM for, 4:414–415
and cost of capital, 4:78–80
cost of debt and equity in, 5:178
defined, 1:358
importance of, 4:43–44
investment decision criteria, 4:48–64
accounting rate of return, 4:53–54
internal rate of return, 4:49–50, 56–62
net present value, 4:48–49, 54–59
payback period, 4:50–53
popularity and use of capital
budgeting methods, 4:62–64
profitability index, 4:54
popularity and use of, 4:62–64
practice problems, 4:66–68
principles, 4:46–48
process, 4:44–45
assumptions to problems, 4:69–71
capital consumption allowance (CCA), 2:129
capital deepening investments, 2:171
capital employed (term), 1:261
capital expenditures committed, 5:614
financing for, 5:8, 9
and fiscal policy, 2:303
net cash flow to, 3:375
property, plant, and equipment as, 3:463, 464
capital flows and international trade, 2:348–361
trade balance, 2:435–437
capital gains, 5:314, 529, 565
capital gains taxes, 4:154, 328
capital goods, 2:124
capital-indexed bonds, 5:325
capitalization of costs, 3:469–481
expensing of costs vs., 3:469–474
on financial statements, 3:469–474
of interest costs, 3:474–477
of internal development costs, 3:477–481
for ongoing purchases, 3:473
and financial reporting issues, 3:681–682, 691
of intangibles, 3:687
of interest, 3:684–685
capitalization rate (cap rate), 6:192
capitalizing on dividends, 4:162–163
capital leases. see finance leases
capital losses, 5:314, 529–531, 565
capital market expectations, 4:457
capital market line (CML), 4:392–400
defined, 4:393–395
and definition of market, 4:393
of leveraged portfolios, 4:396–400
with different lending/borrowing rates, 4:398–400
with equal lending/borrowing rates, 4:397
passive and active portfolios, 4:392
risk and return on, 4:395–396
and single-index model of beta, 4:403, 404
SML vs., 4:411–413
capital markets. see also Integrity of Capital Markets [Standard of Professional Conduct II]
analyzing developments in, 2:375
and benefit of ethics to society, 1:36
functions of, 2:398–399
money market, 5:15
primary, 5:13–15
regulation of, 3:111
sustainability of, 1:36–37
capital market securities, 5:298
capital market theory, 4:388–400
capital market line, 4:392–400
portfolio of risk-free and risky assets, 4:388–392
combining risk-free asset with risky assets, 4:389–392
homogeneity of expectations assumptions, 4:391–392
capital protected instruments, 5:380
capital rationing, 4:48
capital restrictions, 2:348, 358–361
capital returns, 1:242, 261
capital spending
 cyclical use of resources, 2:201–203
and fiscal policy, 2:306
capital stock, 2:172–173
capital structure
defined, 1:358; 3:248; 5:591
in high-yield credit analysis, 5:638
marginal cost of, 4:98–101
simple vs. complex, 3:186
target, 4:76
capital-to-labor ratio, 2:171
capital transfers sub-account, BOP, 2:364
CAPM. see capital asset pricing model
capped floating interest rate, 5:507
caps, floating-rate note, 5:322
captive finance subsidiaries, 4:201
carbon assets, 4:38
carbon credits, 5:10
care. see Loyalty, Prudence, and Care
[Standard II(A)]
Carhart, Mark, 4:403
Carnegie, Andrew, 2:92
internal rate of return, 1:360–365, 361–365; 4:63n.5
net present value, 1:358–360
practice problems, 1:379–381
in private equity valuation, 6:183–184
in real estate valuation, 6:192
solutions to problems, 1:382–384
and time value of money, 1:357
discretionary cash flow to debt, 3:375
future value of series with, 1:313–314
future value of series without, 1:314
infinite series of, 1:323–324
present value of series with, 1:318–323
present value of series without, 1:326
excess interest, 5:505
external, 1:233, 234, 263
and financial reporting issues, 3:691
financing, 3:269
free cash flow to equity, 3:302–303; 4:80n.7; 6:183–184
free cash flow to the firm, 3:302–303; 4:80n.6
future value of (see future value [FV])
geometric and arithmetic mean of
future cash flows, 1:455
government, 2:295–298
incremental, 1:358n.1; 4:47
IRR vs. NPV and patterns in, 4:56–57
large, 1:233, 264
monitoring cash uses and levels, 4:192
for mortgage pass-through securities, 5:487, 489–490
net, 3:268, 375
net income and, 3:691
of non-agency RMBSs, 5:499
nonconventional, 4:47
operating, 3:269–280
and capitalising vs. expensing of
and IFRS vs. US GAAP
operating activities, 3:288–289
and capitalising vs. expensing costs,
3:649–470
components and format, 3:267–280
and capitalising vs. expensing
3:267–269
cash flows from operating activities,
3:270–280
and IFRS vs. US GAAP, 3:269–270
defined, 3:12
disclosures about long-lived assets on,
3:501
effects of reporting quality on,
3:682–685
financing activities on, 3:267–268, 288
and income statements, 3:280–281
information provided by, 3:68
investing activities on, 3:267, 287–288
leases on, 3:517
operating activities on, 3:267, 283–287
cash for income taxes, 3:287
cash for interest, 3:286–287
cash for other operating expenses,
3:286
cash from customers, 3:283–284
cash to employees, 3:284–285
cash for other operating expenses,
3:286
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
cash for other operating expenses,
3:286
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
cash for other operating expenses,
3:286
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
and capitalising vs. expensing
3:267–280
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
and capitalising vs. expensing
3:267–280
cash to employees, 3:284–285
and capitalising vs. expensing
3:267–280
Central Europe. see also specific countries
current account imbalance, 2:372
debt and equity outstanding, 5:348
trade-to-GDP ratio, 2:332
centralization, of financial organization, 4:212
central limit theorem, 1:582–585, 590, 620n.7
central tendency. see measures of central tendency
Centre for Economic Policy Research (CEPR), 2:241
century bonds, 5:375, 438
CEOs. see chief executive officers
CEPR. see Centre for Economic Policy Research
Certificate in Investment Performance Measurement (CIPM) certificants, I:33
Certificate in Investment Performance Measurement (CIPM) Program, 1:189, 190
certificates of deposit (CDs), 4:194;
5:384
CESR. see Committee of European Securities Regulators
CFA. see Chartered Financial Analyst
CFA Association of Pakistan, 1:229
CFA charterholders, 1:195
CFA Denmark, 1:228
CFA designation, 1:195. see also Reference to CFA Institute, Designation and Program [Standard VII(B)]
guidance on using, 1:195
order of professional and academic designations with, 1:200
right to use, 1:199
stating facts about, 1:200
CFA examinations, 1:29
bringing written material into exam room, 1:191
confidential information in, 1:189–190
expressing opinions about, 1:190
grading guidelines and results for,
1:193
passing, in consecutive years,
1:198–199
sharing content of, 1:192–193
sharing questions from, 1:191
writing after exam period, 1:192
CFA Institute, 1:229. see also specific committees and programs
clarifications of GIPS by, 1:226, 231, 232, 257
code of ethics, 1:8–9
compromising integrity of, 1:193
everal commitment of, 1:38–39
GIPS standards, 1:223, 224
IPS presentations by, 4:441
mission of, 1:31
monitoring of financial reporting standards by, 3:132–133
performance standards of, 5:61
referring to, 1:195
standards for communicating recommendations, 3:34–35
values of, 1:39
website, 1:39, 47, 153, 190
CFA logo, 1:196–197, 199–200
CFA marks, use of, 1:196–197
CFA members and candidates, 1:50
CFA Program. see also Reference to
CFA Institute, Designation and Program [Standard VII(B)]
conduct restrictions for candidates and members, 1:189
confidential information about,
1:189–190
stating facts about, 1:200
testing policies for, 1:191
CFA Society of Hungary, 1:229
CFA Society of New Zealand, 1:229
CFA Sri Lanka, 1:229
CFD. see contracts for difference
CFNAL see Chicago Fed National Activity Index
CFOs. see chief financial officers
CFR. see corporate family rating
CGM Focus Fund, 1:431
Chamberlin, Edward H., 2:61
change in polarity principle, 1:685
change of control covenant, 5:622n.26
change of control put option, 5:639
cycles
fund mandate, 1:166
to investment process, 1:166–168
channel stuffing, 3:686
Chapter 7 bankruptcy, 4:142n.8, 143
Chapter 11 bankruptcy, 4:142–143
character, in four Cs framework, 5:607,
623
charitable foundations, endowments for,
4:244–246
charities, strategic asset allocation for,
4:467–469
Charles Schwab Corporation, 3:737–738
Chartered Alternative Investment Analyst (CAIA) Association, 6:169n.19Chartered Financial Analyst. see entries beginning with CFA
Chartered Financial Analyst Program, 5:61
chart of accounts, for financial statements, 3:44
chart patterns, 1:686–697
continuation patterns, 1:693–697
flags and pennants, 1:696–697
rectangles, 1:696
reversal vs., 1:686
triangles, 1:694–696
reversal patterns, 1:686–693
continuation vs., 1:686
double tops and bottoms, 1:691–693
head and shoulders, 1:687–691
triple tops and bottoms, 1:692–693
charts, 1:674–683
bar, 1:675–676
candlestick, 1:676–678
line, 1:674–675
point and figure, 1:678–680
relative strength analysis of, 1:682–683
scale of, 1:680–681
time intervals of, 1:682
volume on, 1:681–682
Chebyshev, Pafnuty, 1:437
Chebyshev’s inequality, 1:437–439
Chevron/Texaco, 2:103
Chicago, Illinois, 6:39
Chicago Board of Trade (CBOT), 6:37, 39–40
Chicago Board Options Exchange, 1:708
Chicago Fed National Activity Index (CFNAI), 2:240
Chicago Mercantile Exchange (CME), 2:400; 5:29, 209
Chief executive officers (CEOs), 4:21
Chief financial officers (CFOs), 4:104–105
Chief risk officers (CROs), 4:281
Chile
discipline for financial reporting quality, 3:662
exchange rate regimes, 2:429, 431–432
IFRS adoption, 3:114
inflation-linked bonds, 5:324, 368
inflation targeting, 2:279
MSCI multi-market index, 5:96
China
approval for dividends, 4:151, 160
business investment, 2:173
capital goods expenditures, 2:124
capital restrictions, 2:359
central bank reserves, 2:405
comparative advantage, 2:339–340, 344
CPI, 2:225
current account, 2:369, 372
debt and equity outstanding, 5:348
demand for commodities, 6:194
discipline for financial reporting quality, 3:661
domestic and international debt securities, 5:313
economic growth, 2:175
economic indicators, 2:240
effects of global recession, 2:162
exchange rate regime, 2:428, 429, 433
exports from, 2:329, 334, 346
foreign bonds, 5:311
foreign investment in, 5:164
GDP, 2:117, 151
globalization of production, 2:334
growth country, 5:190n.2
housing sector, 2:207
IFRS adoption, 3:114
industrialization, 5:211
labor supply, 2:172
market efficiency, 5:121
MSCI multi-market index, 5:96
Multi Fiber Agreement, 2:337
regular cash dividends, 4:153
reserve requirements, 2:277
say on pay, 4:18
securitization pilot program, 5:471
stock dividends, 4:157
trade balance with US, 2:126, 127
two-tier boards, 4:10
underground economy, 2:120
China Aviation Oil Corp., 6:197
China Construction Bank, 3:216–217
China Investment Corporation, 4:247
China Mobile Limited, 1:684–685, 697; 5:237
China Petroleum & Chemical Corporation, 3:605–606
China Securities Regulatory Commission, 3:107n.9
Chinese accounting standards (CAS), 3:114
Chinese yuan (yuan renminbi), 2:393
CNX/USD exchange rate, 2:395–396
exchange rate regime, 2:429
international bonds outstanding, 5:349
chi-square test, 1:642, 735
Chi-X Europe, 5:30
Christie's, 6:202
CIPM certificants. see Certificate in Investment Performance Measurement certificates
CIPM Program. see Certificate in Investment Performance Measurement Program
Cisco Systems, 3:222–223; 5:209
Citibank Inc., 4:87; 5:166
Citigroup, Inc.
bond yield plus risk premium approach to valuation for, 4:90
dynegy Inc., 3:684
as FX market participant, 2:404, 406
reverse split at, 4:159–160
Citigroup Commercial Mortgage Trust 2013-GCJ11, 5:502–504
civil law system, 4:27
Claritas Investment Certificate, 1:189, 190
classical gold standard, 2:426
classified balance sheet, 3:216
clawback, private equity, 6:177
clean price, 5:409
clearing (term), 6:11
clearinghouses
daily settlement by, 5:36; 6:18, 19
in exchange-traded derivatives market, 6:11
in futures market, 5:22
clearing instructions, 5:44, 49–50
Clearstream, 5:364, 378
codification
and applicable law, 1:35–39
and book value vs. intrinsic value, 5:176
and stakeholder management, 1:144
and values of CFA Institute, 1:28–35
and values of professional ethics, 1:35–39
and values of social ethics, 1:35–39
codification
and principle-based standards, 1:10
and professional conduct, 1:10
and professional conduct, 1:33–34
and Standards of Practice Council, 1:34–35
in Standards of Practice Handbook, 1:3, 8, 29–31, 38
text of, 1:40
and values of CFA Institute, 1:39
Code of Ethics (CFA Institute), 1:29–40
adoption of, 1:34
and applicable law, 1:46–49
evolution of, 1:30
and importance of ethics, 1:35–39
notification of, 1:138
and principle-based standards, 1:10
and Standards of Practice Council, 1:33–34
and Standards of Practice Council, 1:34–35
and Standards of Practice Council, 1:33–34
and Standards of Practice Council, 1:34–35
and Standards of Practice Council, 1:33–34
competition, 2:61
price elasticity of demand, 2:67, 439, 440
two-factor analysis, 5:209, 211
CoCos. see contingent convertible bonds
COD. see cash on delivery
Code of Ethics (CFA Institute), 1:29–40
adoption of, 1:34
and applicable law, 1:46–49
evolution of, 1:30
and importance of ethics, 1:35–39
notification of, 1:138
and principle-based standards, 1:10
and professional conduct, 1:33–34
and Standards of Practice Council, 1:34–35
and Standards of Practice Handbook, 1:3, 8, 29–31, 38
text of, 1:40
and values of CFA Institute, 1:39
Code of Hammurabi, 4:303
codes of ethics (in general)
adoption, 1:144
commitment to, 1:38
defined, 1:8
developing, 1:50–51, 78
and stakeholder management, 4:19
codification. see Accounting Standards Codification (FASB)
coefficient of variation (CV), 1:439–441
of net income, 3:372
of operating income, 3:372
of revenues, 3:372
colls, 1:694
coincident economic indicators, 2:235, 237
Coinstar, Inc., 5:199
collars, 6:136
collateral for bond indenture, 5:303
default rate for, 5:499
in four Cs framework, 5:607, 621–622
for hedge funds, 6:170
real estate as, 6:184
and repo margin, 5:386
and repo rate, 5:385
and stakeholder management, 4:19
collateral backing, 5:305–306, 377
collateralized bond obligations (CBOs), 5:508, 6:34
collateralized debt obligations (CDOs), 5:508–511
defined, 6:34
ethical issues with, 1:138
structure, 5:509
as structured financial instruments, 5:379
transaction example, 5:509–511
underlying for, 6:37–38
valuation of, 6:172
collateralized loan obligations (CLOs), 5:509; 6:34
collateralized loans, 4:216, 217
collateralized mortgage obligations (CMOs), 5:492–499, 6:34
defined, 5:493
with floating-rate tranches, 5:497
mortgage pass-through securities vs., 5:492–493
non-agency residential mortgage-backed securities vs., 5:499
with planned amortization class tranches, 5:495–497
with sequential-pay structures, 5:493–495
with support tranches, 5:495–497
collateral managers, 5:509
collateral trust bonds, 5:305
collateral yield, 6:199
collections, 6:201–202
Colombia
exchange rate regime, 2:429
IFRS adoption, 3:114
inflation-linked bonds, 5:324
inflation targeting, 2:279
MSCI multi-market index, 5:96
Columbia Pictures, 3:693
Columbia University, 4:244
combination(s)
defined, 1:508
stock, 5:157
combination formula, 1:508–509
combined ratio, 3:327–328
Comcast, 4:12
commercial banks, 5:32, 33
commercial industry classification systems, 5:192–196
example, 5:194–196
GICS standard, 5:192
ICB system, 5:192–193
representative sectors in, 5:193–194
RGS system, 5:192
commercial loans, 2:237
commercial mortgage-backed securities (CMBS), 5:999–504
balloon maturity provisions, 5:501
call protection, 5:500–501
credit risk, 5:500
indirect debt investment with, 6:188
structure, 5:500–504; 6:189
commercial paper (CP), 5:372–375
credit quality, 5:373–374
issuance of, 5:635n.34
issuers, 5:372
other short-term investments vs., 4:195
short-term financing from, 4:216
US vs. Euro markets, 5:374–375
commercial real estate investments direct and indirect investing in, 6:188
global assets under management, 6:151
institutionally owned, 6:185
commercial receivables, 3:46
Commission Bancaire, 2:270
commissions
brokerage, 4:340
duties to clients, 1:102–104
ethical issues with, 1:25–27
commitment fees, 4:219n.10
committed capital
defined, 1:262
Private Equity (GIPS Section I.7), 1:247
for private equity, 6:176
Real Estate (GIPS Section I.6), 1:243,
244
committed lines of credit (committed bank lines), 4:216; 5:614
Committee of European Securities Regulators (CESR), 3:111
Committee on the Financial Aspects of Corporate Governance, 4:7
commodities, 6:193–200
benefits and costs of holding, 6:64–65
contracts on, 5:14
correlation of, with other asset classes, 4:458
defined, 6:155
derivatives and indices, 6:194–195
downside frequencies, 6:157
forward positions, 8:21
global assets under management, 6:151
growth in, 6:153
investment vehicles, 6:195–196
performance and diversification benefits, 6:196–197
prices of, 6:197–200
returns on, 6:152
returns analysis, 5:193, 196–197
risk–return tradeoffs for, 6:157
Sharpe ratios and downside risk measures, 6:156–157
traders of, 5:25–26
as underlying, 6:35, 37
volatility, 6:152
commodity exchange traded funds, 6:155
commodity futures, 6:37
pricing of, 6:198–200
risk management with, 6:203
commodity indices
bias in, 6:151
and commodity derivatives, 6:194–195
differences in returns from, 5:101–102
growth in trading, 6:153
commodity inventories, 3:657
Commodity Research Bureau (CRB) Index, 5:101
commodity swaps, 5:24
common equity, cost of. see cost of common equity
common law system, 4:27
common markets, 2:354–358
common shares (common stock)
callable, 5:158–159, 171
characteristics of, 5:156–159
for commodities investing, 6:195
as component of equity, 3:242
corporate governance, 4:31
defined, 5:156
and fixed-income securities, 5:296
at Ford Motor Company, 5:157–158
and long-term debt, 3:289
payout policies for, 4:152
and preference shares, 5:159–160
preferred, vs., 5:17–18
putable, 5:159, 171
in US GAAP, 3:186
at Viacom Corporation, 5:156–157
common-size analysis
for balance sheets, 3:246–254
analysis of ratios, 3:331, 334–336
cross-sectional, 3:252–254
for S&P 500, 3:250–251
for cash flow statements, 3:298–302
horizonal, 3:195n.50, 331, 334–336
for income statements, 3:195–197, 332–333
of ratios, 3:330–337
vertical, 3:195n.50, 246, 331–333
common stock. see common shares
common stock portfolio, probabilities for, 1:546
Commonwealth of Independent States, 2:332; 5:348
communication(s)
different forms of, 1:163
to employees of material nonpublic information, 1:87
interdepartmental, 1:85
in risk management framework, 4:274
communication assets, 6:200
Communication with Clients and Prospective Clients [Standard V(B)], 1:161–170
application of the standard, 1:165–170
compliance procedures, 1:164–165
eleventh edition revision, 1:32
guidance, 1:162–164
different forms of communication, 1:163
facts vs. opinions in reports, 1:164
identifying risks and limitations, 1:163–164
informing clients of investment process, 1:162–163
report presentation, 1:164
text of, 1:42, 161–162
co-movement patterns, 4:239–241
Companhia Vale do Rio Doce, 1:677
Companies Act 2006 (United Kingdom), 4:14
companion (support) tranches, 5:495–497
company(-ies)
as bond issuers, 5:297
borrowing by, 5:8
comparable, 4:92

cyclical, 5:190–191, 221, 609

fundamentals of, 5:609–613

non-cyclical, 5:190–191, 609

as risk drivers, 4:296

securitization benefits for, 5:471

similar, 5:189–191

value of, 5:172–178, 204

variability of recovery rates for, 5:595

company analysis, 5:228–232

defined, 5:188

elements of, 5:229–232

and industry analysis, 5:610–611

spreadsheet modeling in, 5:232

company promotion, 1:93

company stakeholders, see stakeholder(s)

cost of capital and, 4:74

comparability, of accounting choices, 3:24

compares, of comparables, see also method of comparables

cash flow analysis of, 3:304–305

defined, 4:92

comparable sales approach to real estate valuation, 6:191

comparable store sales ratio, 3:371, 372

comparative advantage, 2:339–347

absolute advantage vs., 2:339–346

defined, 2:328n.1


card and Hecksher–Ohlin models, 2:346–347

comparative growth information, 3:336–337

compensation. see also Additional Compensation Arrangements

[Standard IV(B)]

bonus, 1:25–27, 140–141

and company performance, 4:32–33

and conflict of interest, 1:177–178

disclosure of, 1:101

externally compensated assignments, 4:197

as form of payment, 2:115

in GDP, 2:129

as motivation for issuing low-quality financial reports, 3:659–660

notification of, 1:140–141

outside, 1:141

policy development, 4:18

remuneration vs., 4:9n.2

and research independence, 1:64

say on pay, 4:18

compensation committees, 4:23, 24

compensation plans, 4:33

compensation policies, 4:29

compensation, 1:78

competition

in credit analysis, 5:608

imperfect

break even analysis, 2:40–41

marginal revenue, 2:29–30

revenue in perfect competition vs., 2:35–36

monopolistic, 2:79–83

benefits of, 2:335–336

characteristics of, 2:63

defined, 2:61

demand analysis, 2:80–81

long-run equilibrium, 2:82–83

optimal price and output, 2:81

supply analysis, 2:81

non-price, 2:63

perfect, 2:64–79

break even point for firm, 2:38–39

characteristics of, 2:63

defined, 2:61

demand, average, and marginal costs, 2:36–37

demand analysis, 2:65–72

and innovation, 2:79

long-run equilibrium, 2:77–78

marginal revenue, 2:29–30

and oligopoly, 2:92

optimal price, 2:73–77

output optimization, 2:73–77

revenue in imperfect competition vs., 2:35–36

shutdown decision, 2:39–40

supply analysis, 2:72–73

and price collusion, 2:89

in strategic analysis, 5:205

competition policy, 1:133

competitive position, as fundamental, 5:609

competitive strategy

and capacity, 5:608

in company analysis, 5:228

Competitive Strategy (Porter), 2:64

complacency, passive investment

strategy end, 4:197

complement(s) defined, 2:15

and elasticity of demand, 2:69

event, 1:484

identifying, 2:16

completed contract method of revenue recognition, 3:158–159, 161

complete markets, 5:58

complex capital structures, 3:186

complexity, of derivatives, 6:44

compliance

Fundamentals of Compliance (GIPS Section 1.0), 1:231–232

about, 1:230

recommendations, 1:232

requirements, 1:231–232

with GIPS

benefits of, 1:220–221

claiming, 1:220, 227

GIPS-compliant historical performance, 1:226–227

compliance officers, 1:60

compliance procedures

adequate, 1:143–145

adoption of, 1:144

education and training

implementation, 1:145

inadequate, 1:143, 148

and incentive structure, 1:146

as responsibility of supervisors, 1:144–145

compliant presentations

Composite Construction (GIPS Section 1.3), 1:235

defined, 1:262

Disclosure (GIPS Section 1.4), 1:235–237

Fundamentals of Compliance (GIPS Section 1.0), 1:232

GIPS Advertising Guidelines (GIPS Section III), 1:254, 255

GIPS Valuation Principles (GIPS Section II), 1:251

Input Data (GIPS Section 1.1), 1:233

Presentation and Reporting (GIPS Section 1.5), 1:238–240

Private Equity (GIPS Section 1.7), 1:245, 246

Real Estate (GIPS Section 1.6), 1:240, 242, 243

Verification (GIPS Section IV), 1:256, 260

Wrap Fee/SMA Portfolios (GIPS Section 1.8), 1:248–250

“comply or explain” codes, 4:34

cost of capital, 4:74

component method of depreciation for long-lived assets, 3:487–489

Composite Construction (GIPS Section 1.3), 1:234–235

about, 1:230

recommendations

general, 1:235

demand, 1:248

requirements

general, 1:234–235

for private equity, 1:246

for real estate closed-end fund strategies, 1:243

for wrap fee/SMA portfolios, 1:249

cumulative construction, misrepresenting, 1:76

cumulative creation date, 1:236, 262

cumulative definition

Composite Construction (GIPS Section 1.3), 1:235

defined, 1:262

Private Equity (GIPS Section 1.7), 1:246

Real Estate (GIPS Section 1.6), 1:243

Verification (GIPS Section IV), 1:259

cumulative description defined, 1:262

Disclosure (GIPS Section 1.4), 1:236

Fundamentals of Compliance (GIPS Section 1.0), 1:232

GIPS Advertising Guidelines (GIPS Section III), 1:254, 255

Verification (GIPS Section IV), 1:258

cumulative inception date defined, 1:262

GIPS Advertising Guidelines (GIPS Section III), 1:255

Presentation and Reporting (GIPS Section 1.5), 1:238–239

Private Equity (GIPS Section 1.7), 1:246

Real Estate (GIPS Section 1.6), 1:243, 244

Composite Leading Indicators (CLI), 2:235

composites

Calculation Methodology (GIPS Section 1.2), 1:233, 234

Composite Construction (GIPS Section 1.3), 1:234, 235

defined, 1:262

Disclosure (GIPS Section 1.4), 1:236–238

Fundamentals of Compliance (GIPS Section 1.0), 1:232
composites (continued)
GIPS, 1:221
GIPS Advertising Guidelines (GIPS Section III), 1:255
GIPS Valuation Principles (GIPS Section II), 1:250–252
Input Data (GIPS Section I.1), 1:233
investment firm balanced growth composite (sample), 1:270–271
List of Composite Descriptions (GIPS Section V.0.1), 1:290–293
Presentation and Reporting (GIPS Section I.5), 1:238–240
Private Equity (GIPS Section I.7), 1:246–248
Real Estate (GIPS Section I.6), 1:243, 244
Verification (GIPS Section IV), 1:256–260
Wrap Fee/SMA Portfolios (GIPS Section I.8), 1:249, 250
composite since inception distributions, 1:243, 244, 247
composite since inception paid-in capital, 1:243, 244, 247
composite termination date defined, 1:262
Fundamentals of Compliance (GIPS Section 1.0), 1:232
Presentation and Reporting (GIPS Section I.5), 1:239
compounded yield measures, 5:416
compounding
continuous, 1:310–311, 551–552
conversions of, 5:417–418
defined, 1:304–305
frequency of, 1:308–310, 317–318
future value of lump sum with, 1:309–310
solving TMV problems for number of compounding periods, 1:299–300
A Comprehensive Business Reporting Model (CFA Institute), 3:133
comprehensive income
defined, 3:47n.4, 243n.22
IFRS on, 3:19, 199, 202
on income statements, 3:199–202 other
accumulated, 3:242–243
defined, 3:47n.4, 199
on income statements, 3:201–202
on statement of comprehensive income, 3:19–20
statement of, 3:12, 16–20
total, 3:199
US GAAP on, 3:19, 199, 202
Compustat, 3:329
computations, financial analysis vs., 3:320–322
computer hardware industry, 5:222–223
ConAgra Foods, Inc., 3:675–676
concavity, 5:563
concentrated portfolio strategies, 6:156
concentration, industry, 5:208–211, 219
concentration ratio, 2:102–104
and barriers to single standards framework, 3:128–129
conservatism in, 3:655
constraints on financial reports, 3:118–119
convergence of US GAAP and, 3:126–127
and effective standards frameworks, 3:128
elements of financial reports, 3:119–121
objective of financial reporting/reports, 3:100–102, 116–117
qualitative characteristics of financial reports, 3:117–118
and quality of financial reporting, 3:644–645
requirements of Presentation of Financial Statements (IAS No. 1), 3:121–126
conclusions, from financial statement analysis, 3:34–35
conditional expected values, 1:488
conditional prepayment rate (CPR), 5:488, 489
conditional probability, 1:476–479, 483–484
conditional value at risk (CVaR), 4:299
conditional variances, 1:490–493
Conduct as Participants in CFA Institute Programs [Standard VII(A)], 1:189–193
application of the standard, 1:191–193
eleventh edition revision, 1:32–33
guidance, 1:189–191
additional CFA restrictions, 1:190, 191
confidential information
expressing opinions, 1:190
text of, 1:43, 189
confections industry, 5:219–221
Conference Board, 2:235, 236, 240
confidence
business and consumer, 2:149, 151
investor, 1:225
confidence intervals, 1:587–593
construction of, 1:587–588
definition, 1:587
for hypothesis testing, 1:617
and hypothesis tests, 1:623–624
for population mean, 1:587–592
with normally distributed population with known variance, 1:588
t-distribution, 1:591–592
z-alternative, 1:589–591
reliability factors for, 1:588–589, 592–593
and sample size, 1:593–595
confidence limits, 1:587
confidential information about CFA program, 1:189–190
accidental disclosure of, 1:128–129 of firm, 1:139
intentional disclosure of, 1:127–128
possessing, 1:127
confidentiality, 1:102. see also Preservation of Confidentiality [Standard III(E)]
confessions of transactions, duplicate, 1:184
conflicts of interest
and business relationships, 1:176, 180
and business stock ownership, 1:176
and compensation arrangement, 1:177–178
and directorship, 1:178–179
disclosure of, 1:101 (see also Disclosure of Conflicts [Standard VI(A)])
and personal stock ownership, 1:177
and personal trading, 1:179
and priority of transactions, 1:181
and requested favors, 1:179
in stakeholder management, 4:17
Conflicts of Interest [Standard of Professional Conduct VI], 1:173–188
Disclosure of Conflicts [Standard VI(A)], 1:173–180
application of the standard, 1:176–180
compliance procedures, 1:176
guidance, 1:173–176
text of, 1:42, 173
Priority of Transactions [Standard VI(B)], 1:181–186
application of the standard, 1:184–186
compliance procedures, 1:182–184
guidance, 1:181–182
text of, 1:42–43, 181
Referral Fees [Standard VI(C)], 1:186–188
application of the standard, 1:186–188
compliance procedures, 1:186
guidance, 1:186
text of, 1:43, 186
conforming mortgages, 5:486
Conroy, Robert M., 4:86n.16
Consensus Bullish Sentiment Index, 1:707
conservative accounting choices (conservatism)
aggressive vs., 3:654–659
behavioral biases associated with, 5:138
benefits of, 3:658
biased application of standards, 3:658–659
defined, 3:654
in extractive industries, 3:655–656
losses in, 3:655
conservatorship, 5:486n.8
consistency
estimator, 1:586–587
of financial performance forecasts, 3:722
consistent probabilities, 1:476
consol bonds (consols), 1:323–324
5:366, 546
consolidated balance sheets
Alcatel-Lucent, 3:434–435
Micron Technology, Inc., 3:571–572
Volvo Group, 3:421–422
corporate family rating (CFR), 5:599
corporate governance, 4:5–36
about, 4:6–8
analyst considerations, 4:31–36
board of directors representation, 4:32
composition of investors, 4:33–34
economic ownership and voting control, 4:31–32
long-term risk management, 4:34–35
remuneration and company performance, 4:32–33
shareholders’ rights, 4:34
board of directors representation, 4:32
boards of directors, 4:20–24
committees, 4:22–24
composition of, 4:21
functions and responsibilities, 4:21–22
staggered boards, 4:21
company stakeholders, 4:8–14
relationships, 4:11–14
stakeholder groups, 4:8–11
composition of investors, 4:33–34
defined, 4:6
economic ownership and voting control, 4:31–32
factors affecting, 4:25–28
market factors, 4:25–26
non-market factors, 4:27–28
long-term risk management, 4:34–35
non-profit organizations, 4:10
for private equity firms, 5:163
remuneration and company performance, 4:32–33
risks and benefits, 4:28–30
benefits of effective governance, 4:29–30
risks of poor governance, 4:28–29
shareholders’ rights, 4:34
stakeholder management, 4:14–20
about, 4:14–15
defined, 4:14
mechanisms, 4:15–20
corporate governance committee, 4:23
corporate governance industry, 4:27–28
corporate governance reports, 4:20
corporate notes, 5:375–378
corporate profile, in company analysis, 5:229
corporate sector (business sector), 2:124;
5:347
corporate structure, in high-yield credit analysis, 5:638–639
corporate treasurers, 5:6
Corporation Law, 4:159
corporations
as intermediaries, 5:32–33
multinational, 2:333–334
real assets of, 5:27
correction, of unintentional errors, 1:72
corrective waves, 1:716–718
correlation(s)
of asset classes, 4:359, 458–459
defined, 1:499; 4:551
estimating, 1:501–502
and historical risk, 4:358
hypothesis tests with, 1:649–651
and investment opportunity set, 4:362–363
and portfolio risk, 4:351–353, 356
properties of, 1:499
and risk diversification, 4:358
of risk-free asset in portfolio of risky assets, 4:389
risk from changing, 4:289n.21
correlation coefficient, 4:351
of risk-free asset in portfolio of risky assets, 4:389
risk from changing, 4:289n.21
correlation matrix, 1:499
COSCO Pacific, 4:236–239
cost(s)
accounting, 2:28
administrative, 2:359–360
amortised, 3:121, 218–219, 236, 237
average, 2:36–37
average fixed, 2:31–35
average total, 2:31–37, 45–46
average variable, 2:30, 36–37, 39–40
borrowing, 3:465–466
capitalisation of, 3:469–481
carrying, 2:410
current, 3:121
deferred, 3:691
development, 3:477–481, 556, 557, 563
economic, 2:28, 38, 73
expensing of, 3:469–474
financing, 4:46
fixed and break-even points, 4:141
and capacity, 5:608
and degree of operating leverage, 4:129–131
and degree of total leverage, 4:138–139
fixed production overhead costs, 3:397n.7
and leverage, 3:352–353; 4:121–124
and shutdown decision, 2:41–42
total, 2:31–35, 41–42
and total, variable, marginal costs, 2:31–35
flotation, 4:102–104
historical, 3:121
of holding assets, 6:64–66
incremental, 3:169
of inflation, 2:273–275
information-acquisition, 5:123–124
interest, 3:474–477
internal development, 3:477–481
of international trade, 2:335–339
inventory, 3:170–172, 396–398; 4:210
labor, 2:154–156
line, 3:682
long-run average, 2:98
long-run marginal, 2:98
marginal
defined, 2:23
and marginal revenue/profit maximization, 2:29–30
in monopolies, 2:36–37, 98
and other costs/output, 2:31–35
in perfect competition, 2:36–37
menu, 2:215–216, 274
opportunity in capital budgeting, 4:46, 47
and economic vs. accounting profit, 2:73
of money invested, 6:65
in productivity, 2:24
and required rate of return, 6:63
ordering, 4:210
and output, 2:31–35
period, 3:171
policy, 4:210
production, 3:397n.7
and production, 2:23–25
quasi-fixed, 2:33
rebuilding, 6:192
research, 3:556, 557, 563, 657
shoe leather, 2:274
“soft,” 6:192
software development, 3:468, 477–480
standard, 3:221
stock-out, 4:210
sunk, 2:28; 4:47
total, 2:24, 31–35, 41–42
transaction
with active portfolios, 4:422n.6
assumptions of CAPM about, 4:410
for borrowing, 5:9
with derivatives, 6:41, 70
and financial risks, 4:287–288
and market efficiency, 5:123
unit labor, 2:230, 237
variable average, 2:30, 36–37, 39–40
defined, 2:30
and leverage, 4:122–124
and operating leverage, 3:352;
4:129–131
of production, 3:397n.7
total, 2:31–35, 41–42
weighted average, 3:222
cost approach to real estate valuation, 6:192
Costa Rica
exchange rate regime, 2:428
exports from, 2:334
government spending, 2:126
IFRS adoption, 3:114
underground economy, 2:120
cost arrangements, restricting, 1:60
cost averaging, 1:419
Costco Wholesale Corporation, 1:402, 430
cost curves
long-run average, 2:44–48
short-run, 2:43–45
cost flow assumptions, 3:673–674
cost function, 2:24
cost of capital, 4:46, 73–118
about, 4:74–75
for capital budgeting and security valuation, 4:78–80
and company value, 4:74
cost of common equity, 4:84–90
bond yield plus risk premium approach, 4:90
CAPM approach, 4:85–88
dividend discount model approach, 4:89
and equity risk premium, 4:85–88
cost of debt, 4:80–83
debt-rating approach, 4:81–82
estimating, 4:82–83
yield-to-maturity approach, 4:80–81
cost of preferred equity
best estimate, 4:84
calculating, 4:84
cost of preferred stock, 4:83–84
and country risk, 4:97–98
defined, 4:74
estimating, 4:90–105
with beta and project beta, 4:90–97
with weighted average cost of capital, 4:95–97
flotation costs, 4:102–104
in investment decision-making by CFOs, 4:104–105
marginal cost of capital schedule, 4:98–101
practice problems, 4:108–114
solutions to problems, 4:115–118
and taxes, 4:75–76
weighted average, 5:178
in capital budgeting decisions, 4:78–79
computing, 4:75
defined, 4:75
estimations, 4:95–97
and raising of additional capital, 4:98–101
and return on invested capital, 5:204
risk factors in, 4:90
weights for, 4:76–78
cost of carry
and price of European options, 6:90–91
and price of forward contracts, 6:77
and storage, 6:46
for underlying assets, 6:65
cost of common equity, 4:84–90
bond yield plus risk premium approach, 4:90
CAPM approach, 4:85–88
dividend discount model approach, 4:89
and uncertainty risk premium, 4:85–88
cost of debt, 4:80–83
after-tax, 4:81
for capital budgeting, 4:46
company's, 4:90n.23
debt-rating approach, 4:81–82
defined, 4:80
estimating, 4:82–83
and governance, 4:30
and taxes, 4:75
in weighted average cost of capital, 5:177
yield-to-maturity approach, 4:80–81
cost of equity
common equity, 4:84–90
in private equity valuation, 6:183–184
and required rates of return, 5:177–178
cost of goods sold
and activity ratio, 3:343
on balance sheet, 3:61
in inventory valuation, 3:222
cost of preferred stock, 4:83–84
cost of sales
and inflation, 3:405–406
and inventory valuation method, 3:396, 400–402
and LIFO reserve, 3:407–408
in periodic vs. perpetual inventory systems, 3:402–404
cost-push inflation, 2:229–231
cost recovery method of revenue recognition, 3:162–163
cost structures
and leverage, 4:122–124
in monopolies, 2:95–96
and price collusion, 2:89
Cote D'Ivoire, 3:115
Council of the European Union, 3:111
counterparties, futures, 6:18
counterparty risk, 4:287, 293; 5:22, 36
countervailing duties, 2:351
counting, 1:506–509
combination formula, 1:508–509
multinomial formula, 1:508
multiplication rule of, 1:507–508
permutation formula, 1:509
country risk, cost of capital and, 4:97–98
country sponsors, GIPS, 1:228–229
coupon effect, 5:404, 405
coupon payment structures, 5:321–327
corporate notes/bonds, 5:376
credit-linked coupon bonds, 5:322–323
defered coupon bonds, 5:323
discount rate notes, 5:321–322
index-linked bonds, 5:323–326
payment-in-kind coupon bonds, 5:323
step-up coupon bonds, 5:322
coupon rate of
Asian and North American bonds, 5:400
and bond duration, 5:546–547
defined, 3:589
and frequency of coupon payments, 5:298–299
for securities, 4:195
coupon-type classification for fixed-income markets, 5:350–351
Cournot, Augustin, 2:86
Cournot assumption, 2:86–87
Cournot equilibrium, 2:87, 89, 90
covariance
and correlation of risks in portfolio, 4:351–353
in covariance matrix, 1:497–498, 500
defined, 1:495–497
estimating, 1:501
and expected return, 1:500
interpreting sign of, 1:497
of return, 4:331
of risk-free asset in portfolio of risky assets, 4:389
and strategic asset allocation, 4:462
covariance matrix, 1:497–498, 500
covenants, 5:308–309
affirmative, 5:308, 622
for bond indenture, 5:303
change of control covenant, 5:622n.26
debt, 5:601–603, 660
and employee laws, 4:19
in four Cs framework, 5:607, 622–623
in high-yield credit analysis, 5:639–640
with leveraged loans, 6:177–178
limitations on liens, 5:640
maintenance, 5:640
negative, 5:308–309, 622
probability of breaching, 1:540–541
restricted payments, 5:640
and stakeholder groups, 4:9
Covenant Review, 5:623
coverage, 1:62
coverage ratios
for capitalised interest, 3:475–477
debt service, 5:647–648
fixed charge, 3:354–355, 628, 629
and four Cs framework, 5:613
interest, 3:354, 375, 628, 629
for operating lease adjustment, 3:744–745
and solvency ratios, 3:628–631
covered bonds, 5:306
covered calls, 6:130–133
covering, of positions, 5:40
CP, see commercial paper
CPI. see French consumer price index;
US Consumer Price Index
CPI-U. see Consumer Price Index for All Urban Consumers
CPR. see conditional prepayment rate
CRA International Inc., 3:153
crashes, 6:42
crawling band currency regimes, 2:428, 432
crawling peg currency regimes, 2:428, 431–432
Crazy Eddie's, 3:653
CRB Index, see Commodity Research Bureau Index
creative destruction theory, 2:209–210
credibility of central banks, 2:280–281
of monetary and fiscal policy mix, 2:315
credit and accounts receivable management, 4:201
as drag on liquidity, 4:184
for short-term financing, 4:215–217
trade, 4:211, 212
as underlying, 4:37–38
credit accounts, 4:202–203
credit analysis, 3:374–376, 5:587–660
capital structure in, 5:591
for corporate debt securities, 5:606–624
credit rating process, 3:374–376
credit risk
defined, 5:588–590
return vs., 5:624–633
defined, 3:723
four Cs framework, 5:606–624
capacity, 5:607–621
correlation, 5:623
collateral, 5:621–622
covenants, 5:622–623
Watson Pharmaceuticals Inc. case study, 5:614–621
functions of, 5:588
high-yield, 5:634–641
corporate structure in, 5:638–639
covenant analysis, 5:639–640
debt structure and leverage in, 5:636–638
equity-like approach to, 5:640–641
financial projections for, 5:635–636
liability in, 5:634–635
and non-investment grade ratings, 5:634
credit analysis (continued)
for non-sovereign government debt, 5:646–648
practice problems, 5:652–657
by ratings agencies, 5:597–606
credit ratings, 5:598–599
issuer vs. issue ratings, 5:599–601
risks of relying on ratings, 5:601–604
use of ratings, 5:597–598
recovery rates in, 5:593–596
research on ratios in, 3:376
seniority ranking in, 5:591–593
solutions to problems, 5:658–660
for sovereign debt, 5:641–646
flexibility and performance profile, 5:643–646
political and economic profile, 5:643
in Portugal, 5:645–646
sovereign debt defaults, 5:641–642
credit analysts, 3:31
credit card networks, barriers to entry for, 5:206–207
credit card receivable asset-backed securities, 5:507–508
credit curve, 5:632–633
credit cycle, 5:594–595, 627
credit default swaps (CDSs) contracts for, 5:25
credit as underlying for, 6:37
as credit derivatives, 6:31–33
defined, 4:300n.32
as insurance contracts, 5:34
credit derivatives, 6:30–33
credit duration, 5:542, 570
credit enhancements
for auto loan ABSs, 5:505
and bond indenture, 5:306–308
defined, 5:303
external, 5:307–308, 475
internal, 5:306–307, 475
with non-agency RMBSs, 5:499
in securitizations, 5:475
credit events, 4:300
credit insurance, 4:202
credit limits, 4:185
credit lines, 4:185
credit-linked coupon bonds, 5:322–323
credit-linked notes (CLNs), 5:380;
6:31
credit migration risk, 5:589
creditors
business risk for, 4:141–143
contractual agreements with, 4:18–19
legal protections for, 4:27
shareholder interests vs., 4:13
as stakeholders, 4:9
credit quality
classifying fixed-income markets by, 5:348–349
of commercial paper, 5:373–374
and repo margin, 5:386
of sovereign bonds, 5:366–367
credit rating agencies, 5:597–606
basis for ratings, 5:598–599
and corporate governance, 4:30
fullibility of, 5:604
opinions of, 1:57–58
risks of relying on, 5:601–604
use of, 5:597–598
credit ratings
basis for, 5:598–599
and country risk, 4:98
for credit risk management, 4:300
for issuer vs. issue, 5:599–601
non-investment grade, 5:634
risks of relying on, 5:601–604
and special purpose entities, 5:478, 479
use of, 5:597–598
credit risk, 4:30. see also default risk
assessing, 3:723–726
with commercial mortgage-backed securities, 5:500
components of, 5:588–590
with corporate notes/bonds, 5:377
credit derivatives for hedging, 6:30, 32
defined, 3:374, 723; 4:287
with fixed-income securities, 5:297–298, 570–571
with floating-rate bonds, 5:422
with floating-rate notes, 5:321
measuring, 4:300
with repurchase agreements, 5:386
return vs., 5:624–633
safety measures for, 4:197
and yield-to-maturity, 5:429
Credit Roundtable, 5:623
credits
in accounting systems, 3:72–73, 76–92
BOP system, 2:362–363
unused tax, 3:565–566
credit sales, revenues and, 3:674–675
credit scoring model, 4:203
credit services, financial institutions’, 5:32
credit spread options, 6:30–31
credit spreads
and credit ratings, 5:603
defined, 5:478–479
term structure of, 5:415
Credit Suisse, 5:210
credit tranching, 5:306–307, 477
credit-worthiness, 4:185, 203, 217
CRH, 1:421
“Critical Accounting Estimates” (MD&A), 3:659
critical region, test statistic, 1:622
critical value, 1:622–624
Croatia, 2:428; 5:96
crop types (farmland investments), 6:189
CROs. see chief risk officers
cross-border real estate investments, 6:185
cross-default provisions, 5:600
cross-departmental conflicts, 1:175
crossing networks, derivatives pricing rule for, 5:57
cross-price elasticity of demand for consumers, 2:115–118
in perfect competition, 2:69
cross-rates, currency, 2:411, 413–417
cross-sectional common-size analysis, 3:252–254
cross-sectional data, 1:403, 579, 581
cross-sectional mean, 1:403–405
cross-sectional pricing anomalies, 5:130, 133
cross-sectional ratio analysis, 3:333, 341
cross-sectional regression analysis, 2:102
cross-shareholdings, 4:33
cruding out, 2:301
CRSP. see Center for Research in Security Prices
culture
corporate, 3:693–694
risk, 4:278
cumulative distribution function, 1:526, 527, 539
cumulative frequency, 1:392–396
cumulative frequency distributions, 1:400–401
cumulative preference shares, 5:160, 171
cumulative probabilities, 1:732–733
cumulative relative frequency, 1:392–393
cumulative voting, 4:16; 5:156
currency(-ies), 5:14. see also specific currencies
in business cycles, 2:208
classifying fixed-income markets by, 5:349
for fixed-income securities, 5:299–300
foreign central bank purchases of, 2:367–368
FX conventions for, 2:393–394
in markets, 5:19–20
for sovereign bonds, 5:366–367
in sovereign credit analysis, 5:643
as underlying, 6:5, 37
and yield-to-maturity, 5:429
currency board system (CBS), 2:428, 430–431
currency codes, FX market, 2:393
currency contracts, 5:39
currency exchange rates, 2:391–454
calculations, 2:410–424
cross-rate, 2:413–417
and exchange rate quotations, 2:410–417
forward, 2:417–424
currency regimes, 2:424–435
active and passive crawling pegs, 2:431–432
arrangements with no separate legal tender, 2:429–430
CBS, 2:430–431
fixed parity, 2:431
fixed parity with crawling bands, 2:432
free-floating, 2:432–433
historical perspective on, 2:426–428
ideal, 2:425
managed float, 2:432
target zone, 2:431
taxonomy of, 2:428–435
foreign exchange market, 2:391–410
about, 2:391–392
currency conventions, 2:393–394
functions, 2:398–404
nominal vs. real exchange rates, 2:394–398
participants in, 2:404–407
size and composition of, 2:407–410
and international trade, 2:435–445
absorption approach to trade balance, 2:441–442
elastocities approach to trade balance, 2:437–441
practice problems, 2:449–451
quotations, 2:410–413
solutions to problems, 2:452–454
currency option bonds, 5:300
Currency Overlay Composite, 1:291–292
currency quotes, 2:410–413
currency regimes, 2:424–435
arrangements with no separate legal

tender, 2:429–430
CBS, 2:430–431
with crawling bands/legs, 2:431–432
fixed parity, 2:431
free-floating, 2:432–433
historical perspective on, 2:426–428
ideal, 2:425
managed float, 2:432
target zone, 2:431
currency reserves
foreign, 2:271, 286
requirements, 2:259, 260, 276–277, 359
currency risk, managing, 4:271–272
currency swaps, 5:24; 6:23n.12, 37
current account, BOP, 2:363, 369–373
current assets
and accounting profit vs. taxable
income, 3:551–552
on balance sheets, 3:215, 217–224
Apple Inc., 3:218
cash and cash equivalents, 3:218–219
inventories, 3:221–223
marketable securities, 3:219
other, 3:223–224
SAP Group, 3:217–218
trade receivables, 3:219–221
defined, 3:46
current cost, 3:121
current government spending, 2:303
current liabilities
of Apple Inc., 3:225
on balance sheets, 3:215–216, 224–228
deferred revenue analysis of, 3:226–228
of SAP Group, 3:225
current ratio
and conversion from LIFO to FIFO,
3:413
defined, 3:348; 4:186
interpretation of, 3:349
inventory value in comparison of,
3:733–734
current tax, 3:566–569
tax charged to equity, 3:567–569
and valuation allowance, 3:567
current tax liabilities, 3:551–552
current yield, 5:302, 419
curve duration, 5:534, 541, 544, 558
custodial relationships, 1:56
custodial services, by financial
intermediaries, 5:36–37
custody fees, 1:262
custody of client assets, 1:98
customers
cash from, 3:283–284
contractual agreements with, 4:20
power of, 5:608
receipts of, 4:203–206
segregation of, 2:99
shareholder conflicts with, 4:13
as stakeholders, 4:10
supplier conflicts with, 4:13
The Customers’ Afternoon Letter, 5:78
customs union, 2:354
CV, see coefficient of variation
CVaR, see conditional value at risk
CVC Capital Partners, 3:717
CVS Corporation, 4:92
cyclical companies
credit analysis with, 5:609
descriptions related to, 5:190–191
growth and defensive companies vs.,
5:221
in investment strategies based on
aggregate demand, 2:161
cyclical economic indicators, 2:240–241
cyclically adjusted budget deficit, 2:309
Cyprus, 2:354n.18, 428
Czech Republic, 2:279; 3:113; 5:96
D
%D (stochastic oscillator), 1:704–705
Daejan Holdings PLC, 3:511–512
Daily Sentiment Index, 1:707
daily settlement, 2:348; 3:402
Daimler AG, 1:422; 3:358–360; 5:189,
209, 267
DaimlerChrysler, 3:156; 5:168
Damodaran, Aswath, 4:97n.35
Danish Society of Financial Analysts,
1:228
Danone. see Groupe Danone
dark pools, 5:29
data, financial statement
analysis, 3:34
collection, 3:33
interpretation, 3:34
manipulation, 3:73–74
misrepresentation, 3:74
processing, 3:33–34
data mining, 3:595–598; 5:130
data-mining bias, 1:595–598
data snooping, 1:595n.20, 596n.23;
5:130
data-snooping bias, 3:728–729
date of book closure, 4:160
date of record, 4:160
Daves, Phillip R., 4:91n.25
David and Lucile Packard Foundation,
4:245
655, 659
Davidson, Russell, 1:626n.15
day-of-the-week effect, 5:132
day order, 5:48
days in receivables, 4:186, 207
days of inventory on hand (DOH)
and activity ratios, 3:341–343
and conversion from LIFO to FIFO,
3:412
inventory management with,
3:426–427
and inventory turnover, 3:343–344
and inventory write-downs, 3:424–425
days of sales outstanding (DSO)
in activity ratio definition, 3:341
as liquidity measure, 4:186
and quality of financial reporting,
3:690
and receivables turnover, 3:344–345
DB pension plans. see defined-benefit
pension plans
DBRS. see Dominion Bond Rating
Service
DBS Bank, 5:161
DBS Group Holdings, 5:161
DCFs. see discounted cash flows
DC pension plans. see defined-
contribution pension plans
DDM. see dividend discount model
dead cross pattern, 1:698
deadweight loss, 2:348, 349
dealer markets. see over-the-counter
(OTC) markets; quote-driven
markets
dealers
and arbitrageurs, 5:34–36
and brokers, 5:30–31
in OTC derivatives market, 6:12
primary, 5:30, 362
risk shifting to, 4:307
dealing securities, 3:267
De Beers Consolidated Mines Limited,
2:93
debentures, 5:305, 591
debits
accounting system, 3:72–73, 76–92
BOP system, 2:362–363
DeBondt, Werner, 5:132
debt. see also collateralized debt
obligations (CDOs)
amount of debt coming due, 5:614
analyst adjustments to, 3:742–744
bad, 3:44
collateralized debt obligations, 1:138
convertible, 3:190–191
corporate, 5:371–379
bank and syndicated loans,
5:371–372
commercial paper, 3:372–375
corporate notes and bonds,
5:375–378
cost of, 4:80–83
after-tax, 4:81
for capital budgeting, 4:46
company’s, 4:90n.23
debt-rating approach, 4:81–82
defined, 4:80
estimating, 4:82–83
governance, 4:30
taxes, 4:75
in weighted average cost of capital,
5:177
yield-to-maturity approach, 4:80–81
in credit ratios, 3:373–376
defined, 5:295
derecognition of, 3:599–601
discretionary cash flow to, 3:375
distressed, 6:172
external, 5:643
extinguishment of, 3:599–601
FCF after dividends/debt ratio, 5:132
FIFO/debt ratio, 5:613
fixed-rate, 5:350
floating-rate, 5:350
forgiveness of, 3:181
government, 2:254, 308
in high-yield credit analysis, 5:636–638
decisions
capital budgeting, investment decision
criteria for, 4:48–64
average accounting rate of return, 4:53–54
internal rate of return, 4:49–50
net present value, 4:48–49
payback period, 4:50–53
popularity and use of capital
budgeting methods, 4:62–64
profitability index, 4:54
risk management, 4:269–270
decision-useful information, in financial
reports, 3:644–646
decision-making, 3:612

decrease stage (industry life-cycle), 5:215
decaying balance depreciation method,
5:272–273
debt
income, 3:501

debt covenants, sec 3:601–603, 660
debt financing, for real estate, 6:187–188
see also mortgages
debt incurrence test, 4:99
debt instruments, 5:15
debt markets
credit analysis in, 5:588
global, 5:347–348
debt-rating approach, for cost of debt,
4:4–82
debt ratios, 3:353, 354
debt securities. see also fixed-income
securities
corporate, 5:606–624

equity vs., 5:155
and preference shares, 5:159–160
debt service coverage ratio (DSCR),
5:500, 647–648
debt-to-assets ratio, 3:353, 354, 628
debt-to-capital ratio, 3:353, 354, 628;
5:612
debt-to-EBITDA ratio, 3:376; 5:612
debt-to-equity ratio, 3:353, 354, 628;
4:77–78
decree, 1:79
decennial pattern, 1:715
deciles, 1:420
decision making
by CFOs, 4:104–105
ethical framework for, 1:20–27, 37–38
group, 1:153
in hypothesis testing, 1:625
ineffective, 4:28–29
time frame for dissemination and,
1:108–109
decision rule, 1:621–624

deficit
budget (fiscal), 2:296
and business cycles, 2:125
and fiscal policy, 2:309–310
and foreign capital, 2:134
and national debt, 2:299–301
and Ricardian equivalence, 2:308
in current account, 2:369–373
trade, 2:126, 330

defined-benefit (DB) pension plans
accounting for, 3:624
defined, 3:625
effective duration in, 5:542–543
as investment clients, 4:243
Monte Carlo simulations for, 1:555
defined-contribution (DC) pension
plans, 3:624–625; 4:242
deflation
defined, 2:222
and inflation targeting, 2:282
and liquidity traps, 2:290
and quantitative easing, 2:290–291
degree of confidence, 1:587
degree of financial leverage (DFL)
defined, 4:133
deferred, and degree of total leverage,
4:138–139
degree of operating leverage (DOL)
calculating, 4:131
defined, 4:126
deferred and degree of total leverage,
4:138–139
and financial risk, 4:133–136
and operating risk, 4:126–131
degree of total leverage (DTL)
defined, 4:137–139
degrees of freedom (df), 1:590, 591, 636
Delafield Fund, 1:431
delisted companies, 1:599
delivery
of futures, 6:20
of options, 6:26
and repo rate, 5:385
in spot market trading, 5:10

dell inc.
business strategy and financial
performance, 3:321–322
cash and inventory management,
4:210n.8
cash flow analysis of comparables,
3:304–305
common-size cash flow statement, 3:300–302
3-cross-sectional common-size analysis, 3:252–254
evaluation of liquidity measures, 3:350
two-factor analysis of, 5:209
delta, 4:298
Delta Air Lines, 2:84
demand
aggregate (see aggregate demand [AD])
for commodities, 6:198
in company analysis, 5:230
concepts, 2:6–8
derived, 2:347
elastic, 2:10, 12–14, 67
elasticity of demand, 2:8–18
calculating, from demand function, 2:16–18
cross-price elasticity of demand, 2:15–18
defined, 2:8
income elasticity of demand, 2:14–16
own-price elasticity of demand, 2:9–14
excess, 2:331
for fixed- vs. floating-rate debt, 5:350
inelastic, 2:10, 11, 13–14, 67
law of demand, 2:6, 18–19, 21, 71
long-run vs. short-run, 2:12
for money, 2:263–266
in monopolistic competition, 2:80–81
in monopoly, 2:36–37, 94–95
in oligopoly, 2:84–89
in perfect competition, 2:36–37, 65–72
perfectly elastic, 2:12
perfectly inelastic, 2:11
under perfect vs. imperfect competition, 2:36
and spreads on corporate bonds, 5:627
unit elastic, 2:10
demand and supply analysis, 2:5–58
consumers, 2:6–23
demand concepts, 2:6–8
elasticity of demand, 2:9–18
substitution and income effects, 2:18–23
firms, 2:23–48
marginal returns, 2:23–28
scale and profit maximization, 2:43–48
shutdown analysis, 2:28–43
in microeconomics, 2:5–6
for money, 2:264–266
practice problems, 2:51–55
solutions to problems, 2:56–58
demand curves
aggregate
example, 2:143–144
features of, 2:141
interest rates and income effects, 2:142–143
investment strategies based on, 2:167–168
defined, 2:8
effect of income elasticity on, 2:15
elasticity of linear, 2:11
kinked, 2:85–86, 91
and law of demand, 2:18
of leaders in oligopoly, 2:91
as marginal value curve, 2:71
in monopolies, 2:94–95
in monopolistic competition, 2:80–81
negatively sloped, under imperfect competition, 2:40–41
in oligopolies, 2:84–86, 91
in perfect competition, 2:73–74
demand functions
defined, 2:6–7
elasticities from, 2:16–18
inverse, 2:8
demand-pull inflation, 2:229, 231–232
demand schedules, 2:67–69
demand shock to inflation rate, 2:289
demographic influences
on housing sector, 2:207
in industry analysis, 5:203, 223–224
and industry life-cycle, 5:217
in sovereign credit analysis, 5:643
in strategic analysis, 5:220
de Moivre, Abraham, 1:541
Denmark
domestic and international debt securities, 5:313
equity risk premiums, 4:87
exchange rate regime, 2:428, 433
GIPS country sponsor, 1:228
MSCI multi-market index, 5:96
real equity returns, 1:396
residential mortgage loans, 5:482–484
returns on bonds, bills, and equities, 5:153
share repurchases, 4:163
total returns, 1:404, 408, 421
departments, physical separation of, 1:85
dependent events, 1:481
dependent samples, hypothesis tests for,
1:638–642
depreciation (term), 3:481n.12
depository receipts (DRs), 5:118, 166–169
American, 1:674; 5:167–168
European, 1:698n.5
Gazprom SP European, 1:698, 699
Standard & Poor’s, 5:68, 74
depositories, 5:19, 37
depositors, in securitization process, 5:474
depository banks, 5:166
depository institutions, 5:32–33
deposits, retail, 5:383
depreciation
in absorption approach, 2:442
accelerated, 3:176–178, 481
accumulated, 3:44
average age of depreciable assets, 3:508–510
component method, 3:487–489
currency, 2:312
diminishing balance, 3:482
defined, 3:25, 57, 175
depreciation methods, 3:481–487
plant, property, and equipment, 3:230, 735–736
and quality of financial reporting, 3:691–692
straight-line and balance sheet, 3:678–681
bond premium/discount amortisation, 3:593
calculation, 3:482
defined, 3:481
depreciation/amortisation, 3:175–176
double-declining and units-of-production methods vs.,
3:842–486
units-of-production, 3:481–486, 678–681
useful life and residual value in,
3:175–178
depreciation expenses, 3:487–489, 500
depressions, 2:197
derecognition of debt, 3:599–601
of long-lived assets, 3:497–499
derivative contracts, 5:15
derivative expiration days, 1:646–647
derivatives, 6:5–58
benefits of, 6:41–42
beta for, 4:298
characteristics of, 6:8–9
contingent claims, 6:25–35
asset-backed securities, 6:33–35
credit derivatives, 6:30–33
forward commitments vs., 6:35–36
options, 6:25–30, 33
criticisms of, 6:42–45
defined, 3:236; 6:6, 60–62
forward commitments, 6:14–25
contingent claims vs., 6:35–36
forward contracts, 6:14–17, 24, 73–80
futures contracts, 6:17–21, 24, 80–82
pricing, 6:73–85
swaps, 6:21–25, 82–85
hedging with, 6:67–68
hybrid, 6:35
markets for, 6:9–14, 38–39
practice problems, 6:54–55
pricing, 6:45–52, 59–117
about, 6:60
arbitrage and, 6:47–52, 66–72
definition of derivatives, 6:80–62
forward commitments, 6:73–85
options, 6:85–100, 104–107
practice problems, 6:109–113
pricing underlying assets, 6:62–66
solutions to problems, 6:114–117
storage in, 6:46–47
valuation vs. pricing, 6:72–73
purposes of, 6:39–41, 44–45
risk shifting with, 4:305–307
solutions to problems, 6:56–58
types of, 6:14–39
underlyings for, 6:36–39
uses of, 6:7–9
valuation of, 6:45–52
binomial valuation of options,
6:100–104
forward commitments, 6:73–85
pricing vs. valuation, 6:72–73
of financial reporting issues, 3:666–694
accounting choices and estimates, 3:672–689
areas of choice/estimate and analyst concerns, 3:686–689
presentation choices, 3:667–672
warning signs, 3:689–694
as part of supervision, 1:143–144
Detroit “Big Three” automakers, 2:96
Deutsche Bank, 1:422; 2:404, 406; 5:166
Deutsche Börse, 5:29, 152, 209, 331; 6:9
Deutsche Bundesbank, 2:270, 427
Deutsche Securities, 5:30
Deutsche Telekom AG, 1:422; 5:270–271
Deutsche Vereinigung für Finanzanalyse und Asset Management, 1:228
developed countries bond markets, 5:353
business investment by, 2:173
foreign exchange reserves, 2:406
international trade and unemployment, 2:336
developing countries. see also emerging markets
business investment by, 2:173
exchange rate targeting, 2:285–288
foreign exchange reserves, 2:406
labor supply, 2:172
monetary policy of, 2:284–285
reserve requirements, 2:277
terms of trade for, 2:239–330
trade-to-GDP ratio, 2:332
development capital, 6:175
development costs internal, 3:477–481
and taxable/deductible temporary differences, 3:563
and tax bases of assets, 3:556, 557
development phase (intangible assets), 3:232
deviation. see also standard deviation from intrinsic value, 1:672
mean absolute deviation, 1:427–429
semideviation, 1:436, 437
de Villiers, Victor, 1:678
DeVry University, 5:210
de Wolff, Samuel, 1:714
df. see degrees of freedom
DFL. see degree of financial leverage
DHL International, 5:209
Diageo, 5:209
differentiation strategy, for companies, 5:228
diffuse priors, 1:506
diffusion index, 2:238n.a, 240
diligence, 1:151, 159
Diligence and Reasonable Basis
[Standard V(A)], 1:150–161
application of the standard, 1:154–161
compliance procedures, 1:154
guidance, 1:150–153
diligence and reasonable basis defined, 1:151
group research and decision making, 1:153
quantitatively oriented research, 1:152–153
quantitatively oriented techniques, 1:153
secondary or third-party research, 1:151–152
selecting external advisers and subadvisers, 1:153
text of, 1:42, 150
Dillards, Inc., 1:410
diluted earnings per share, 3:188–194
with antidilutive securities, 3:193–194
defined, 3:186
if-converted method, 3:188–190
for stock options, 3:193
treasury stock method, 3:191–193
in valuation ratios, 3:369, 370–371
diluted shares, 3:18
diminishing balance depreciation, 3:176–178
diminishing marginal productivity, 2:170–171
diminishing returns, law of, 2:75
Dimson, Einroj, 4:86
direct capitalization approach to real estate valuation, 6:191–192
direct currency quote, 2:410
direct debit programs, 1:209
direct exchange rate, 2:410
direct financing leases defined, 3:530, 620
and financial statements, 3:526–531, 624
initial recognition and measurement 3:620–622
US GAAP on, 3:619, 620
direct-format statements benefits of, 3:271
defined, 3:66
under IFRS, 3:274–276
for Telefónica Group, 3:274–276
direct investment(s)
defined, 1:262
in infrastructure assets, 6:201
in non-domestic equity securities, 5:165–166
Private Equity (GIPS Section I.7), 1:288
in real assets, 5:26
direct method for cash flow from operating activities, 3:682
direct method for overall statement of cash flows, 3:289–290
adjustments to net income, 3:289–290
converting indirect and, 3:293–294
defined, 3:23, 270
direct negotiation, for share repurchases, 4:165
directors, conflicts of interest for, 1:175–176, 178–179. see also board members
direct ownership, of real estate, 6:186–188
direct taxes, 2:303, 306
direct write-off method, 3:174
dirty floating, 2:432
disbursement float, 4:212
Disciplinary Review Committee (DRC), 1:33–34
disciplining mechanisms for financial reporting quality, 3:660–666
auditors, 3:663–664
market regulatory authorities, 3:661–663
and motivation for manipulation, 3:665–666
private contracts, 3:664
disclaimer of opinion, 3:28
Disclosure (GIPS Section I.4), 1:235–238
about, 1:230
recommendations
general, 1:238
for private equity, 1:248
for real estate, 1:244
requirements
general, 1:235–238
for private equity, 1:246
for real estate, 1:242
for real estate closed-end fund composites, 1:243
for wrap fee/SMA portfolios, 1:249
disclosure(s)
of bonds with warrants, 3:605–606
of confidential information, 1:128–129
of conflicts of interest, 1:101
control deficiency, 1:631–633
of debt and financial instruments, 3:597–599
of debt covenants, 3:602–603
of debt extinguishment, 3:600–601
and financial reporting quality, 3:693
and financial reporting standards, 3:133–137
disclosures relating to accounting policies, 3:134–135
disclosures relating to changes in accounting policies, 3:135–137
at General Electric, 3:136–137
at Volkswagen, 3:134–135
by hedge funds, 6:173
of income tax information, 3:570–575
and financial analysis, 3:574–575
Micron Technology, Inc., 3:570–575
of interdepartmental referral arrangements, 1:187
interim period, 3:169n.25
of inventory information, 3:426
of investment property, 3:512–513
of investment system, 3:165, 167
of issuer-paid research, 1:72
of leases, 3:612–619
level of service, 1:110
of LIFO liquidations, 3:414–416
of long-term debt, 3:603–606
and market efficiency, 5:122
market regulators’ requirements of, 3:662
of material information, 1:84–85, 88
and monitoring of financial reporting standards, 3:133–137
in notes to financial statements, 3:126
of pension plans, 3:626–627
of performance calculation
methodology, 1:124–125
of personal investing policies, 1:184
of personal trading, 1:184, 185
of possible illegal activity, 1:128
and presentation of long-lived assets,
3:499–512
Daejan Holdings PLC, 3:511–512
fixed asset turnover and average age
of depreciable assets, 3:508–510
Vodafone Group Plc, 3:501–506
of referral arrangements, 1:186–188
of revaluation model for long-lived
assets, 3:493–494
of revenue recognition, 3:169
selective, 1:88, 110, 112
on social media, 1:113
standards for exchanges, 5:29
trade allocation procedures, 1:110
disclosure management, 3:652n.7
Disclosure of Conflicts [Standard VI(A)],
1:173–180
application of the standard, 1:176–180
compliance procedures, 1:176
guidance, 1:173–176
conflicts as a director, 1:175–176
cross-departmental conflicts, 1:175
disclosure to clients, 1:174–175
disclosure to employers, 1:174
stock ownership conflicts, 1:175
text of, 1:42, 173
discontinued operations, on income
statements, 3:180
discount(s)
bonds issued at, 3:591–595
bonds trading at, 3:599–402, 527, 547
closed-end investment fund,
5:133–134
forward, 2:417
and T-bills, 3:373
and time value of money, 1:302
trade, 4:213–214
discount bonds, 3:591–595; 5:399–402,
527, 547
discounted cash flows (DCFs), 1:357–
384. see also present value models in
equity valuation, 5:246
internal rate of return, 1:360–365;
4:63n.5
evaluating R&D programs with IRR
rule, 1:361–362
NPV and IRR rules, 1:362–363
problems with IRR rule, 1:363–365
money market yields, 1:372–377
bank discount yield, 1:373–374
discount rate, 1:376–377
net present value, 1:358–360
portfolio return measurement,
1:365–372
money-weighted rate of return,
1:366–367, 370–372
time-weighted rate of return,
1:367–372
practice problems, 1:379–381
in private equity valuation, 6:183–184
in real estate valuation, 6:192
solutions to problems, 1:382–384
and time value of money, 1:357
discounted payback period, 4:52–53
discounted receivables, 4:216
discounted securities, yields of,
4:195–196
discounting, 5:16, 246
discount interest, 4:195
discount margin, 5:422–425
discount rate(s)
and federal funds rate, 2:276
for money market yields, 1:376–377;
5:425–426
discount securities, return for, 1:375
discount yield, bank, 1:373–374, 376
discounted worker, 2:219
discrete random variables, 1:525–537
binomial distribution, 1:528–537
evaluating block brokers with,
1:529–530, 532–533
and expected defaults in bond
portfolio, 1:535–536
and one-period stock price as
Bernoulli random variable,
1:528–529
and tracking error objectives, 1:534
discrete uniform distribution,
1:526–528
discretionary cash flow to debt, 3:375
discretionary goods, 2:12
discretionary portfolios, 1:528
discriminatory pricing rule, 5:56
diseconomies of scale, 2:44–47
disinvestment, 2:222, 223
disintermediation, 5:471
dispersion, 1:426–444
absolute, 1:427
Chebyshev’s inequality, 1:437–439
coefficient of variation, 1:439–441
internal
defined, 1:264
Disclosure (GIPS Section I.4), 1:236
Presentation and Reporting (GIPS
Section I.5), 1:239
Real Estate (GIPS Section I.6), 1:243
Verification (GIPS Section IV), 1:259
mean absolute deviation, 1:427–429
population variance and standard
deviation, 1:429–432
range, 1:427–429
relative, 1:439
sample variance and standard
deviation, 1:432–435
semivariance and semideviation,
1:436–437
Sharpe ratio, 1:441–444
displayed orders, 5:47–48
display size, of orders, 5:47
disposable income
and balance of payments, 2:370
defined, 2:205
and MPC, 2:307
personal, 2:130
disposal, of long-lived assets,
3:498–499
dissemination of information, 1:84,
108–109, 185–186
dissociation, 1:50–52
distinct business entities, 1:232, 263
distressed debt, valuation of, 6:172
distressed investing (private equity),
6:175, 180
distressed property investments,
6:193
distressed/restructuring strategy, for
hedge funds, 6:162–163
distributional characteristics of assets,
4:338–340
kurtosis, 4:339–340
skewness, 4:338–339
distribution area laws, 1:50
distribution-free tests, 1:648n.27
distributions, 1:245, 263
F-distribution, 1:736–739
frequency, 1:389–397
construction of, 1:390–392,
396–397
cumulative, 1:400–401
defined, 1:389
and holding period formula, 1:390
and relative frequency, 1:392–396
normal
confidence intervals for population
mean with, 1:588
cumulative probabilities for,
1:732–733
hypothesis tests of normally-
distributed populations,
1:627–630, 634–642, 644–645
reliability factors for confidence
intervals based on, 1:588–589,
592–593
skewed vs., 1:444–447
standard, 1:732–733
Student’s t-distribution vs.,
1:590–591
probability (see probability
distributions)
sampling, 1:578, 586
t-distribution
and confidence interval for
population mean, 1:591–592
defined, 1:626–627
and estimation of normal sampling
distribution, 1:589
normal distribution vs., 1:590–591
table, 1:734
divergence, 1:688, 700
diversification
with alternative investments, 6:151,
153, 157–158
with commodities, 6:196–197
as credit analysis factor, 3:723
and employee stock options,
4:234–236, 360, 453
with hedge funds, 6:165
and investing in portfolios vs. single
equities, 4:234–236
and Loyalty, Prudence, and Care
[Standard III(A)], 1:101
and portfolio risk, 4:352
of portfolio risk, 4:356–361
with private equity, 6:181–183
with real estate, 6:185, 189–191
as risk modification method, 4:303
and Suitability [Standard III(C)],
1:116
diversification ratio, 4:238
divest (term), 5:8
and risk management for alternative investments, 6:204–206
in submanager selection, 1:156–157
sufficient, 1:154, 157–158
Dur & Bradstreet, 3:330
duopoly markets, 2:86–89
DuPont, 2:69
DuPont analysis, 3:362–367
durable goods, 2:205
Duracell, 2:60
duration
approximate modified, 5:539–541
of bond portfolio, 5:551–553
credit, 5:542, 570
and credit risk/return, 5:630–631
curve, 5:534, 541, 544, 558
defined, 4:298; 5:534
dollar, 5:553
effective
calculating, 5:541–544
dealable bonds, 5:549–550
of putable bonds, 5:550
inflation, 5:570
key rate, 5:545
liquidity, 5:570
Macaulay
calculating, 5:534–538
and interest rate risk/investment horizon, 5:565–570
and modified duration, 5:545–547
of portfolio, 5:551–553
modified
annual, 5:538–540
approximate, 5:539–541
calculating, 5:538–539
and credit risk/return, 5:629–631
and effective duration, 5:543–544
and Macaulay duration, 5:545–547
of portfolio, 5:551–553
money, 5:553–555, 568
OAS, 5:544
partial, 5:545
properties of, 5:545–550
real rate, 5:570
and return, 5:526
yield, 5:534, 541, 544, 558
DURATION financial function, 5:537n.2
duration gap, 5:569
Durbin-Watson statistic, 1:740
Dutch auctions, 4:165
Dutch Book Theorem, 1:476
Duties to Clients [Standard of Professional Conduct III], 1:97–129
Fair Dealing [Standard III(B)], 1:106–114
application of the standard, 1:110–114
compliance procedures, 1:108–110
guidance, 1:106–108
text of, 1:41, 106
Loyalty, Prudence, and Care [Standard III(A)], 1:97–105
application of the standard, 1:102–105
compliance procedures, 1:101–102
guidance, 1:97–101
text of, 1:41, 97
Performance Presentation [Standard III(D)], 1:121–125
application of the standard, 1:122–125
compliance procedures, 1:122
guidance, 1:121–122
text of, 1:41, 121
Preservation of Confidentiality [Standard III(E)], 1:125–129
application of the standard, 1:127–129
compliance procedures, 1:127
guidance, 1:125–126
text of, 1:41, 125
Suitability [Standard III(C)], 1:114–121
application of the standard, 1:118–119
compliance procedures, 1:117–118
guidance, 1:114–117
text of, 1:41, 114
Duties to Employers [Standard of Professional Conduct IV], 1:129–150
Additional Compensation Arrangements [Standard IV(B)], 1:140–141
application of the standard, 1:140–141
compliance procedures, 1:140
guidance, 1:140
text of, 1:42, 140
Loyalty [Standard IV(A)], 1:129–139
application of the standard, 1:133–139
compliance procedures, 1:133
guidance, 1:129–133
text of, 1:41–42, 129
Responsibilities of Supervisors [Standard IV(C)], 1:142–150
application of the standard, 1:146–150
compliance procedures, 1:144–146
eleventh edition revision, 1:32
guidance, 1:142–144
text of, 1:42, 142
duty of care, 4:22
duty of loyalty, 4:22
dynamic random access memory, 5:210
Dynegy Inc., 3:684
E
EADS. see European Aeronautic Defense and Space Company
EAFE Index. see MSCI Europe, Australasia, and Far East Index
EAR, see effective annual rate
earlies amortization provisions, 5:508
early exercise, of American options, 6:104–105, 106
early expansion phase (business cycle), 2:197–199
early repayment option, 5:484
earnings
accounting choices/estimates and, 3:673–682
announcements of, 3:8–11
price to earnings ratio, 3:368, 369
quality of, 3:643, 652
retained, 3:48–49, 68, 242
sustainability of, 3:644–646
earnings announcements, 5:134–135
earnings before interest, taxes, depreciation, and amortization (EBITDA)
adjusted, 3:668
in credit analysis, 5:611
debt/EBITDA ratio, 5:612
EBITDA/interest expense ratio, 1:540; 5:613
enterprise value/EBITDA ratio, 5:641
in enterprise value multiples, 5:272
on financial reports, 3:648
for leveraged buyouts, 6:177
for private equity, 6:183
earnings before interest and taxes (EBT)
in credit analysis, 5:611
EBIT/interest expense ratio, 5:613
and operating profit, 3:18, 153
earnings management, 3:652–653
earnings per share (EPS), 1:387
basic, 3:186–188, 369, 370
changes in, 3:194–195
defined, 3:18
diluted, 3:188–194
with antidilutive securities, 3:193–194
defined, 3:186
if converted method, 3:188–190
for stock options, 3:193
treasury stock method, 3:191–193
in valuation ratios, 3:369, 370–371
EBITDA per share, 3:369
equity valuation with, 5:276–278
forecasting, 1:481–482, 484–492
on income statements, 3:149n.5, 185–195
interpretation of, 3:370–371
mean and median, 1:408–409
share repurchases and, 4:166–169
and simple vs. complex capital structure, 3:186
earnings reports, 3:693
earnings smoothing, 3:646
earnings statements, 3:48–49, 68, 150
earnings surprises, 5:134–135
East Asian Financial Crisis (1990s), 2:376
Eastern Europe. see also specific countries
current account imbalance, 2:372
debt and equity outstanding, 5:348
trade-to-GDP ratio, 2:332
East Timor, 2:429
easy fiscal policy, 2:313
easy monetary policy, 2:313
EAY. see effective annual yield
eBay, 2:94
EBIT. see earnings before interest and taxes
EBITDA. see earnings before interest, taxes, depreciation, and amortization
EBITDA interest coverage, 3:375
EBITDA/interest expense ratio, 5:613
EBITDA per share, 3:369
EBIT interest coverage, 3:375
EBIT/interest expense ratio, 5:613
ECB. see European Central Bank
economic moat, economic loss, economic activity in business cycle, and risk, economic conditions, yield spread and, economic costs, Economic Cycle Research Institute (ECRI), economic growth, and aggregate demand, in China, in Mexico, production function and potential GDP, and real GDP, RTAs and spillovers of, sources of, sustainable, and trade, economic indicators, cyclical measures as, defined, diffusion index of, leading, lagging, and coincident, economic infrastructure assets, economic loss, economic moat, economic order quantity–reorder point (EOQ–ROP) approach, economic profit(s) defined, marginal revenue and maximization of, in monopolistically competitive markets, in strategic analysis, economics, economic sectors business/corporate, defined, economic sensitivity of, external trade, financial and financial services, in GDP, government and government-related, household, housing, ICB definition, information technology, mortgage, private, public, representative, sector specific strategies for hedge funds, Economic sentiment index.
employees
cash to, 3:285–286
checking references of, 1:78
classifications of, 1:133
as company stakeholders, 4:9
independent contractors vs., 1:132
material nonpublic information for, 1:87
net income/revenue per employee, 3:372
on non-agricultural payrolls, 2:237
employee stock options, diversification and, 4:234–236, 360, 453
employee stock ownership plans (ESOPs), 4:19
employer(s). see also Duties to Employers [Standard of Professional Conduct IV]
competing with current, 1:136
disclosure of conflicts to, 1:174, 180
former, 1:123, 134
leaving, 1:130–131, 139
misrepresentation of work for, 1:70
responsibilities of, 1:130
Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), 3:711
employment
and business cycle, 2:198, 200–201
nature of, 1:132–133
employment contracts, 4:19
EMU. see European Economic and Monetary Union
ending inventory
and inflation, 3:405–406
and inventory valuation method, 3:396, 400–402
in periodic vs. perpetual inventory systems, 3:402–404
endogeneity, problem of, 2:102
endowments, 4:244–246; 6:152–153
Enel, 1:422
Energizer, 2:60
energy
as commodity, 6:194
speculators on, 6:43n.20
energy mutual funds, 6:196
energy sector, 4:38, 39; 5:193
energy unit trusts, 6:196
enforcement, by market regulators, 3:662
ENI, 1:422
Enron Corporation
credit ratings of, 5:604
departures from GAAP at, 3:653
employees’ stock holdings in, 4:234–235
ethical lapses, 1:6
low-quality financial reports issued by, 3:660
poor governance and stakeholder management at, 4:28
situational influences on ethics, 1:13–14
and technical analysis, 1:674
enterprise, NAICS definition, 5:197
enterprise risk management, 4:222
defined, 4:273
process for, 4:275–277
risk governance in, 4:279–281
risk tolerance in, 4:282
enterprise value (EV), 5:641
enterprise value multiples, 5:247
enterprise value/EBITDA ratio, 5:641
in models for equity valuation, 5:271–274
treatment with clients, 1:63
with related parties, 1:62–63
entry fee, 2:100
environmental, social, governance (ESG) considerations, 4:36–39
about, 4:6
governance (see corporate governance)
implementation methods, 4:38–39
in investment analysis, 4:38
in investment policy statements, 4:452–453
market overview, 4:37–38
environmental projects, capital budgeting for, 4:45
E.ON, 1:422
EOQ-ROP approach. see economic order quantity–reorder point approach
EPRA. see European Real Estate Association
EPS, see earnings per share
equal cash flows
future value of series with, 1:313–314
future value of series without, 1:314
infinite series of, 1:323–324
present value of series with, 1:318–323
present value of series without, 1:326
equality
point of, 1:619
of two variances, 1:644–647
equal weighting, of security market indices, 5:85–86
Equatorial Guinea, 3:115
equilibrium
Cournot, 2:87, 89, 90
long-run
economic
equal
in perfect competition, 2:82–83
in monopolistic competition, 2:82–83
in monopoly, 2:100–101
in oligopoly, 2:92
in perfect competition, 2:77–78
in money market, 2:140–141
Nash, 2:88–89, 92
equilibrium GDP, 2:159–169
inflationary gap, 2:163–164
long-run equilibrium, 2:159
recessionary gap, 2:159–163
stagflation, 2:165–166
equilibrium interest rate, 5:12–13
equilibrium prices
for money, 2:264–265
in perfectly competitive markets, 2:73–74
equipment trust certificates, 5:305–306
equity. see also return on equity (ROE)
on balance sheets, 3:212, 241–246
Conceptual Framework on, 3:119
cost of common equity, 4:84–90
in private equity valuation, 6:183–184
and required rates of return, 5:177–178
debt-to-equity ratio, 3:353, 354, 628
defined, 3:212
and financial position, 3:10
free cash flow to equity, 3:302–303;
6:183–184
on cash flow statements, 3:302–303
defined, 4:80n.7
in discounted cash flow approach, 6:183–184
in equity valuation models, 5:246, 250
minority equity investing, 6:180
owners
accounting equation, 3:46–47
defined, 3:12, 44, 212
in residential properties, 6:187
statement of, 3:68
shareholders’, 3:212, 473; 5:174
on balance sheet, 3:212
and capitalizing vs. expensing expenditures, 3:473
and ROE, 5:174
and stock dividends, 4:157
statement of changes in equity, 3:244–246
Apple Inc., 3:245–246
and balance sheet, 3:244–246
defined, 3:12
for financial statement analysis, 3:20–22
tax charged to, 3:567–569
total debt to total debt plus equity ratio, 3:376
total liabilities-to-equity ratio, 3:413
equity analysis, of corporate debt securities, 5:606–607
equity analysts, 3:31
equity capital, raising, 5:9
equity derivatives, 5:15
Equity Funding Corp., 3:653
equity hedge strategies, 6:162, 164
equity indices, 5:95–97
equity IPOs, 1:182–183
equity-like approach to high-yield analysis, 5:640–641
equity markets
efficiency of, 6:42
global, 5:347–348
hedge fund strategies with neutrality in, 4:262
OTC derivatives market vs., 6:9–10
equity options, 6:36n.15
equity portfolios. see options strategies for equity portfolios
equity real estate investment trusts, 6:188
equity-related bonds, 5:332
equity risk premium (ERP), 85–88
equity securities (equities), 5:17–18, 149–185. see also stock analysis, 3:368–373
actions based on, 3:34
industry-specific ratios, 3:371–373
research on ratios in, 3:373
valuation ratios, 3:368–371
and company value, 5:172–178
accounting return on equity, 5:172–177
cost of equity and investors’ required rates of return, 5:177–178
equity securities (equities) (continued)
correlation of, 4:458–459
debt securities vs., 5:155
defined, 5:15
global assets under management, 6:151
in global finance markets, 5:150–155
importance of, 5:149–150
international ownership comparisons
for, 5:154–155
investing in portfolios vs., 4:233–234
and diversification, 4:234–236
downside risk, 4:239–241
and modern portfolio theory, 4:241–242
and portfolio composition, 4:238–239
and risk–return tradeoff, 4:238–239
liquidity and issuance of, 5:635
non-domestic, 5:164–169
depository receipts, 5:166–169
direct investing in, 5:165–166
practice problems, 5:180–183
private vs. public, 5:162–164
returns on
frequency distribution of returns, 1:396–397
global comparison of returns, 5:152–154
hedge funds vs. equity returns, 6:165
return characteristics, 5:169–170
risk characteristics, 5:170–171
screening, 3:726–730
example, 3:727
ratio-based, 3:729–730
solutions to problems, 5:184–185
of, 5:155–161
common shares, 5:156–159
preference shares, 5:159–161
as underlying, 6:5, 36
volatility of, 5:153–154
equity swaps, 5:24; 6:36
equity tranches, 5:500; 6:34
equity valuation
point, 5:243–289
asset-based, 5:274–278
for airline, 5:276
for family-owned laundry, 5:275
other models vs., 5:246–248,
276–278
for restaurant, 5:275–276
estimated value and market price in,
5:244–246
multiplier models, 5:263–274
enterprise values in, 5:271–274
example, 5:270–271
fundamentals in, 5:264–265
method of comparables, 5:267–270
other models vs., 5:246–248,
276–278
price multiples in, 5:264–267
practice problems, 5:280–285
present value models, 5:248–262
examples, 5:250–251
Gordon growth model, 5:254–258
multistage, 5:258–262
other models vs., 5:246–248,
276–278
preferred stock valuation with,
5:251–254
share value for three-year investment
horizon, 5:249
purpose, 5:244
solutions to problems, 5:286–289
equivalence, 1:334–335
Erb, Claude, 4:98n.36
ERM. see European Exchange Rate
Mechanism
Ernst & Young, 3:642; 6:153
ERP. see equity risk premium
errors
known, 1:72
notification of, 1:168
sampling, 1:577–578
standard, 1:582–583, 588, 593, 620
tracking, 1:534
Type I and II, 1:620–621
unintentional, 1:72
ESC. see European Securities Committee
ESG considerations. see environmental,
social, governance considerations
ESMA. see European Securities and
Market Authority
ESOPs. see employee stock ownership
plans
Essay on the Principle of Population
of cost of capital,
4:3
of cost of equity,
4:3
of cost of preferred equity,
4:3
of expected returns, 4:414–415
and country risk, 4:97–98
development–making by CFOs,
4:104–105
and flotation costs, 4:102–104
and marginal cost of capital
structure, 4:98–101
with weighted average cost of capital,
4:95–97
of cost of debt, 4:82–83
of cost of equity, 4:84–90
of cost of preferred equity, 4:84
of expected returns, 4:414–415
and statistical inference, 1:585, 617
of value by analysts, 4:44
of weighted average cost of capital,
4:95–97
estimation period, beta, 4:90–91
estimators, 1:585–587, 588n.13
Estonia, 2:354n.18; 5:96
ETFs. see exchange traded funds
equity conduct (term), 1:7
ethical decision-making framework,
1:20–27
applying, 1:22–27, 37–38
phases of process, 1:21–22
ethical principles (term), 1:7
ethical standards, legal standards vs.,
1:17–20
ethics, 1:5–28. see also Code of Ethics;
codes of ethics (in general);
Standards of Professional Conduct
about, 1:5–6
challenges to ethical conduct, 1:11–14
defined, 1:7
ethical decision-making framework,
1:20–27
applying, 1:22–27
phases of process, 1:21–22
ethical vs. legal standards, 1:17–20
firms commitment to, 1:38
impact on stakeholders, 1:6–9
importance of, 1:15–17
and investment industry, 1:35–39
professionalism, 1:9–11
and regulations, 1:37
societal benefit of, 1:36
Ethiopia, 2:162
ETNs. see exchange-traded notes
EU. see European Union
Eurex, 5:29; 6:9
Euribor. see Euro interbank offered rate
euro creation of, 2:427–428
cross-rate calculations with, 2:413–414
as currency anchor, 2:428
currency code, 2:393
EUR/GBP exchange rates, 2:410,
411n.4
exchange rate quotes with, 2:410–412
forward calculations with, 2:417–418
GBP/EUR exchange rate, 2:395, 400
international bonds outstanding in,
5:349
intervention in FX market to support,
2:432
as reserve currency, 5:19
spot market trading of, 5:10
USD/EUR currency pair, 2:408
USD/EUR exchange rate, 2:401
Eurobonds
coupon payment structure for, 5:321
derived, 5:312
foreign and domestic bonds vs., 5:352
in global bond market, 5:311
in secondary market, 5:363–364
settlement of, 5:378
euro–Canada exchange rate, 2:411,
413–414
Euroclear, 5:364, 378
Euro–Coin statistic, 2:241
Eurocommercial paper (ECP) market,
5:374–375
Eurocopter, 5:225
Eurodollar bonds, 5:312
euro–dollar exchange rate, 2:413–414,
417–418
Eurodollar futures, 1:691–692
Eurodollar rate, 4:216
Eurodollar time deposits, 4:194
euro exchange rate, 2:410
Eurofighter consortium, 5:226
Euro interbank offered rate (Euribor), 5:299, 351; 6:78n.11
Europe. see also specific regions and countries
approval for dividends, 4:151, 160
capitalization level and contributions to global GDP, 5:151
capital markets regulation, 3:111
corporate notes and bonds, 5:375
correlation of equities, 4:458–459
economic indicators, 2:241
Giro system, 4:204
hybrid/balanced funds, 4:258–259
IFRS adoption, 3:113
industrial comparative ratio analysis, 5:613
institutionally owned real estate, 6:185
labor supply, 2:172
maturity of mortgages, 5:482
money market funds, 4:256–257
mutual fund assets, 4:256
open market repurchase transactions, 4:164
regular cash dividends, 4:153
residential mortgage loans, 5:484
returns on bonds, bills, and equities, 5:152–153
rights offerings, 4:102
securities ranked lower than subordinated debt, 5:592
stagflation, 2:232
terms of trade, 2:330
trade balance with US, 2:126–127
use of enterprise value, 5:272
European Aeronautic Defense and Space Company (EADS), 1:422; 5:225–226, 268–269
European call options (calls)
and American call options, 5:329; 6:105
binomial option pricing with, 6:101–103
Black–Scholes–Merton model for, 1:561
exercise price of, 6:87, 88
at expiration, 6:86
minimum prices for, 6:91–93
payments on underlying and carrying costs for, 6:91
and risk-free rate of interest, 6:89
time to expiration for, 6:88
and value of underlying, 6:87
volatility of underlying for, 6:90
European Central Bank (ECB)
CPI used by, 2:226
and currency regime of EMU, 2:430
and European Union, 2:354n.18
inflation targeting, 2:279, 281
intervention in FX market, 2:432
monetary policy of, 2:181
money measures of, 2:262
objectives of, 2:272
European Commission, 2:101; 3:104, 111
European Community
currency regimes, 2:428
customs union, 2:354
insider trading laws, 5:122n.11
European Depository Receipts (EDRs), 1:698n.5
European Economic and Monetary Union (EMU), 2:375–376, 428, 430. see also Eurozone
European Exchange Rate Mechanism (ERM), 2:286, 427
European Financial Reporting Advisory Group, 3:111
European Financial Stability Facility (ESFS), 2:358
European Investment Bank (EIB), 5:370
European Model Covenant Initiative, 5:623
European options (European-style options)
call options (see European call options [calls])
deﬁned, 6:26, 85
Monte Carlo simulation for valuing, 1:556
pricing, 6:85–100
and exercise price, 6:87–88
at expiration, 6:86
minimum prices of calls and puts, 6:91–93
and payments on underlying/cost of carry, 6:90–91
put–call–forward parity, 6:98–99
put–call parity, 6:94–98, 100
and risk-free rate of interest, 6:89
and time to expiration, 6:88–89
and value of underlying, 6:87
and volatility of underlying, 6:89–90
put options (see European put options [puts])
European Parliament, 3:111
European put option (puts), 1:564
and American put options, 6:105
binomial option pricing with, 6:103
exercise price of, 6:87–88
at expiration, 6:86
minimum prices for, 6:91–93
payments on underlying and carrying costs for, 6:91
putable bonds with, 5:330
and risk-free rate of interest, 6:89
time to expiration for, 6:88
and value of underlying, 6:87
volatility of underlying for, 6:90
European Real Estate Association (EPRA), 5:102
European Securities and Market Authority (ESMA), 3:111, 661
European Securities Committee (ESC), 3:111
European-style contracts, 5:24
European Union (EU), 5:355
capitalization level and contributions to global GDP, 5:151
capital market regulation, 3:111
and convergence of GAAP, 3:130
economic indicators for, 2:235
ESFS of, 2:358
employee rights, 4:19
ERM of, 2:286, 427
export subsidies, 2:351
hedge fund regulations, 6:171
imports in, 2:329
inflation targeting, 2:281
loans to governments, 5:642
price index, 2:226
quotas from, 2:351
RTAs for, 2:354
securitization in, 5:480n.5
sell-out rights, 4:16
European Works Councils, 4:19
Eurostat, 2:226
euro–Sterling exchange rate, 2:411
EURO STOXX 50 Index, 1:421–424; 2:238
euro–Swiss exchange rate, 2:411, 412
Euroyen bonds, 5:312
euro–yen exchange rate, 2:411
Eurozone
economic indicators, 2:235, 238
and EU, 2:354n.18
inflation-linked bonds, 5:368
money measures, 2:262
panel vs. longitudinal data on, 1:581n.3
Eurozone Manufacturing Purchasing Managers Index, 2:238
Eurozone Service Sector Future Business Activity Expectations Index, 2:238
EV, see enterprise value
evaluation
of fiscal policy, 2:311–312
of monetary policy, 2:293–294
Evaluation and Review, IPS, 4:441
event-driven strategies, 4:262;
6:162–163
event risk, 5:604
events
complement of, 1:484
defined, 1:472–473
dependent, 1:481
independent, 1:481–484
mutually exclusive, 1:473
event studies, in semi-strong efficient markets, 5:126
Everbright Securities, 1:6
evergreen funds, 1:245, 263
Evian, 3:379
ex-ante (term), 1:235, 263
ex ante models, 4:426
ex ante Sharpe ratio, 1:441n.37
excess demand, 2:331
excess interest cash ﬂow, 5:505
excessive trading, 1:104, 113
excess kurtosis, 1:451–454
excess spread, 5:307, 505
excess spread accounts, 5:307
excess supply, 2:331
exchange, money as medium of, 2:257
exchange rate quotations, 2:410–413
exchange rate regimes, 2:424–435. see also currency regimes
exchange rates, 2:393.
see also currency exchange rates
and aggregate demand, 2:151
and short-run aggregate supply, 2:154, 156
exchange rate targeting, 2:285–288
exchanges, 5:29
exchange-traded derivatives market, 6:10–11
OTC vs., 6:13–14
size of, 6:38
exchange-traded funds (ETFs) as alternative investments, 6:150
and basket of listed depository receipts, 5:169
and beta exposure, 6:155
for commodities investing, 6:195
derivatives vs., 6:6
indices for, 5:95
as pooled investments, 4:259–261; 5:19
exchange-traded notes (ETNs), 5:19
exchange-traded options, 6:25
exclusionary screening, 4:38
ex-dividend date, 4:160–162
execution instructions, 5:44–48
execution mechanics, secondary market, 5:54–57
execution-only responsibilities, 1:105
execution step (portfolio management), 4:249–251
asset allocation, 4:249
portfolio construction, 4:249–251
security analysis, 4:249
executive (management) board, 4:10
executive (internal) directors, 4:9
exercise price
of covered calls, 6:132
of options, 6:26; 87–88
of warrants, 5:18
exercise value, of European options, 6:86
exhaustive (term), 1:473
exit strategies, for private equity investments, 6:180–181
exogenous policy tools, aggregate demand and, 2:136
expansionary fiscal policy, 2:294–296, 309
expansionary monetary policy, 2:150, 151, 216
expansionary resource use in, 5:288–289
expansion phase (business cycle), 2:196–199, see also recovery housing sector in, 2:206
inventory–sales ratio in, 2:204
investor preferences, 2:199
resource use in, 2:201
expansion projects, capital budgeting for, 4:85
expansion risk, 5:488
expansion venture capital, 6:179
expectations
about future prices, 2:154, 156
about inflation, 2:232–233
and aggregate demand, 2:149
capital market, 4:457
in economic indicators, 2:237
homogeneity of expectations assumption, 4:391–392, 410–411, 426
in probability, 1:472
expected defaults, in bond portfolio, 1:535–536
expected inflation, 2:273, 275
expected inflation rate, 4:333
expected loss, credit risk and, 5:589
expected return(s)
and beta, 4:407–409
calculation of, 1:495
CAPM estimation of, 4:414–415
and historical mean return, 4:333–334
and SML, 4:412–413
and strategic asset allocation, 4:462–463
and variance of return, 1:500
expected risk premium, 4:333
expected value, 1:486–490
of bonds and T-bills, 4:192–493
conditional, 1:488
defined, 1:485–487
of product of uncorrelated random variables, 1:502
properties of, 1:494–495
standard deviation, 4:87–488
total probability rule for, 1:488–490
tree diagrams, 1:489–490
and weighted mean, 1:415
expenditure(s)
aggregate, 2:115
capital committed, 5:614
financing for, 5:8, 9
and fiscal policy, 2:303
net cash flow to, 3:375
property, plant, and equipment as, 3:463, 464
and consumer surplus, 2:70–72
government, 2:217, 295–298
personal consumption, 2:225
and price elasticity of demand, 2:437–440
R&D, 2:174
total
and aggregate income, 2:133–140
and consumer surplus, 2:71–72
and own-price elasticity of demand, 2:13–14
and trade balance, 2:436–437
expenditure approach to GDP, 4:375–376
expense recognition on income statements, 3:16, 150–151, 170–179
and amortisation, 3:178
applications, 3:174–178
for doubtful accounts, 3:174
and financial analysis, 3:179
general principles, 3:170–174
and inventory costs, 3:170–172
for warranties, 3:174
expenses accrued, 3:70–71, 226
amortisation, 3:490
Conceptual Framework on, 3:120
defined, 3:44
depreciation, 3:487–489
income tax, 3:418
interest, 3:517n.32, 592–596; 5:613, 644
other operating, 3:286
prepaid, 3:70, 223–224
tax, 3:418, 551
trading, 1:234, 236, 268
transaction, 1:241, 242, 245, 246, 269
travel, 1:60–61, 63–64
and warranties, 3:174
Expenses: Compensation–Retirement Benefits (ASC 715), 3:711
expensing of costs
capitalisation of costs vs., 3:469–474
on financial statements, 3:469–474
for ongoing purchases, 3:473
experience curve, 5:203
expert networks, 1:91
experts, 1:83–84
expiration of forward contracts, 6:73–74
of options, 6:26–30, 86
time to, 6:88–89
value at of calls, 6:123–126, 129, 130
of puts, 6:126–129, 134, 135
expiration days, derivative, 1:646–647
exports in balance of trade, 2:366
in business cycles, 2:208
defined, 2:329
exchange rate and prices of, 2:151
net, 2:136, 330
terms of trade for, 2:329–330
voluntary export restraints, 2:348, 351
export subsidies, 2:348, 351–353
ex-post (term), 1:239, 263
ex post models, 4:426
ex post Sharpe ratio, 1:441n.37
ex-post standard deviation, 1:238–240
exposure, risk, 2:271–272
exposure instructions, for orders, 5:47
eXtensible Business Reporting Language (XBRL), 3:330
external advisers, selecting, 1:153
external auditors, 4:17
external cash flows Calculation Methodology (GIPS Section I.2), 1:233, 234
defined, 1:263
Input Data (GIPS Section I.1), 1:233
external competition, price collusion and, 2:89
external credit enhancements, 5:307–308, 475
external debt, 5:643
external influences on industry analysis, 5:222–228
demographic, 5:223–224
governmental, 5:224–226
macroeconomic, 5:222
social, 5:226–227
technological, 5:222–223
externality, 4:47
external liquidity, in sovereign credit analysis, 5:643
externally compensated assignments, 1:137
external manager, travel expenses from, 1:63–64
external sources of information, for financial statement analysis, 3:30
external trade sector cyclical behavior of, 2:207–208
in GDP, 2:126–127
external valuation defined, 1:263
GIPS Valuation Principles (GIPS Section II), 1:251–252
Real Estate (GIPS Section I.6), 1:241–243
extra cash dividends, 4:154–156
extractive industries, 3:655–656
extraordinary items, on income statements, 3:180–181
extreme value theory, 4:299
ExxonMobil
and concentration in gasoline market, 2:103

MACD for, 1:706–707
two-factor analysis, 5:209
in value neutrality argument, 4:171n.27
Ezzell, John R., 4:79n.3, 103n.41

F
Fabozzi, Frank, 4:82n.10, 84n.13
Facebook, 2:94; 4:12, 31
face value, 1:373, 493; 3:588–591. see also par value
factorials, 1:507
factoring, 4:216, 218
factor markets, 2:124
factor-proportions theory, 2:346–347
factors of production (inputs), 2:23–24
facts, opinions and, 1:164, 165
FactSet
factual presentations, misrepresentation and, 1:70–71
failed investments, due diligence and, 1:159
fair dealing, 1:110–112, 114
Fair Dealing [Standard III(B)], 1:106–114
application of the standard, 1:110–114
compliance procedures, 1:108–110
developing firm policies, 1:108–110
disclosure of level of service, 1:110
disclosure of trade allocation procedures, 1:110
systematic account reviews, 1:110
guidance, 1:106–108
investment action, 1:107–108
investment recommendations, 1:106–107
text of, 1:41, 106
fairly valued (term), 5:244
fairness, of tax policy, 2:304
fair value
in asset-based valuation, 6:184
of bonds payable, 3:596–599
Conceptual Framework on, 3:121
defined, 1:263; 3:212n.1, 218–219, 463n.2
financial assets at, 3:237
of financial liabilities, 3:596–597
Fundamentals of Compliance (GIPS Section I.0), 1:232
GIPS Valuation Principles (GIPS Section II), 1:250–251
Input Data (GIPS Section I.1), 1:233
and long-term asset acquisition, 3:463
Private Equity (GIPS Section I.7), 1:245
Real Estate (GIPS Section I.6), 1:241
Fair Value Measurement (IFRS 13), 3:463n.2
Fair Value Measurements and Disclosures (ASC 820), 3:463n.2
fair value reporting, for bonds payable, 3:596–599
fallibility, of rating agencies, 5:604

Fama, Eugene, 4:86n.15, 86n.16, 403; 5:124, 133
Fama and French three-factor model, 5:133
family accounts, 1:104, 182, 184–185
Fannie Mae. see Federal National Mortgage Association
farmland, investing in, 6:185, 189
FASB. see Financial Accounting Standards Board
Fastenal, 5:210
“fast” money, 6:168
Fastow, Andrew, 1:13–14; 3:660
favors, requested, 1:179
FCA. see Financial Conduct Authority
FCF after dividends/debt ratio, 5:133
FCFE. see free cash flow to equity
FCFF. see free cash flow to the firm
FCMs. see futures commission merchants
F&C Stewardship Growth Fund, 4:452–453
FDI. see foreign direct investment
F-distriubition, 1:736–739
federal agency securities, 4:194
Federal Banking Supervisory Office, 2:270
Federal Commission, 2:271
Federal Deposit Insurance Corporation, 1:187
Federal Financial Supervisory Authority, 3:103
federal funds rate (fed funds rate), 2:237, 276
Federal Home Loan Banks (FHLB), 5:321, 370
Federal Home Loan Mortgage Corporation (Freddie Mac), 2:291; 5:321, 370, 486, 499
Federal National Mortgage Association (Fannie Mae), 2:291; 5:321, 370, 486, 499
Federal Open Market Committee (FOMC), 2:276
Federal Reserve. see US Federal Reserve
Federal Reserve Act, 2:284
Federal Reserve Bank of Chicago, 2:240
Federal Reserve Bank of New York, 5:362
FedEx, 5:209
Fed funds, 5:383
Fed funds rate, 5:383
feedback
in portfolio management, 4:251–252
performance measurement and reporting, 4:252
portfolio monitoring and rebalancing, 4:251
in risk management framework, 4:277
fees. see also Referral Fees [Standard VII(C)]
all-in, 1:261
bundled fees
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:261
Disclosure (GIPS Section I.4), 1:237
Presentation and Reporting (GIPS Section I.5), 1:239
Wrap Fee/SMA Portfolios (GIPS Section I.8), 1:248

and conflicts of interest, 1:175
custody, 1:262
fund, 6:158
gross-of-fees, 1:264
for hedge funds, 6:158, 160n.16, 166–169
incentive
for fund investments, 6:158
hedge funds, 6:166
private equity, 6:176–177
investment management fees defined, 1:264
Disclosure (GIPS Section I.4), 1:236
Input Data (GIPS Section I.1), 1:233
Private Equity (GIPS Section I.7), 1:245–248
Real Estate (GIPS Section I.6), 1:242
management
for fund investments, 6:158
hedge funds, 6:166, 169
private equity, 6:176
net-of-fees returns, 6:160–161, 168
1 and 10 fee structure, 6:166
performance, 6:158, 204
performance-based, 1:236, 265
with private equity investments, 6:176–177
for RIIs and real estate partnerships, 6:163
service, 1:64
2 and 20 fee structure, 6:166
unearned, 3:58
fee schedule, 1:236, 263
Ferrellgas, 5:210
FFO. see funds from operations
FFO interest coverage. see funds from operations interest coverage
FFO to debt. see funds from operations to debt
FHLB. see Federal Home Loan Banks
Fiat, 2:96
fiat money, 2:269
Fibonacci, Leonardo, 1:716
Fibonacci sequence, 1:716
fictitious name, 1:200
Fideicomiso Financiero Autos VI, 5:505
Fidelity, 4:415–416; 5:210
fiduciary calls, 6:95–96, 99
FIFO method. see first-in, first-out method
files
current, maintaining, 1:50
of former employers, 1:134
fill or kill orders, 5:48
final goods, 2:117
final liquidation date defined, 1:263
Private Equity (GIPS Section I.7), 1:246, 247
Real Estate (GIPS Section I.6), 1:243
direct financing leases
financial analysis, 3:380
objectives of, 3:319–320
practice problems, 3:383–388
process, 3:318–322
solutions to problems, 3:389–391
strategy and financial performance, 3:320–322
tools and techniques, 3:322–339
graphs, 3:337–339
regression analysis, 3:339
financial analysts
decisions of, 5:6
industry analysis by, 5:202–203
market efficiency and number of, 5:121
financial assets, 3:236–239; 5:14
financial assets abroad sub-account, BOP, 2:364

financial capital
in Heckscher–Ohlin model, 2:346–347
and international trade, 2:328
in long-term economic growth, 2:171
financial condition, statements of, 3:212.
see also balance sheet,
Financial Conduct Authority (FCA),
2:270n.6; 3:661, 662; 5:351n.3
financial corporations, as intermediaries, 5:32–33
financial crisis (2008–2009), see also
appraisal of extreme negative events, 4:339–340
bond defaults, 5:597n.11
and credit enhancement, 5:499
credit ratings agencies contribution, 5:598
liability issues, 5:590, 635
putable bonds, 5:330
and risk-free rate, 5:641–642
securities ranked lower than
subordinated debt, 5:592
and securitization, 5:471, 475
sovereign risk, 4:291
sovereign ratings, 5:366–367
speculation in derivatives, 6:43–44
and yield spread, 5:627
financial disclosure, market efficiency
and, 5:122
financial flexibility, 3:22
financial industry, governmental
influences on, 5:225
financial institutions, 5:32–33
Financial Instruments (IFRS 9), 3:200
financial intermediaries, 5:28–38
arbitrageurs, 5:34–36
brokers, exchanges, and alternative
trading systems, 5:28–30
dealers, 5:30–31, 34–36
defined, 5:6
depository institutions and financial
corporations, 5:32–33
insurance companies, 5:33–34
securitization of real assets by, 5:26
securitizers, 5:31–32
for settlement and custodial services,
5:36–37
transactions facilitated by, 5:38
in well-functioning financial systems,
5:58–59
financial leverage, 4:133–136
degree of, 4:133–135, 138–139
leveraged positions in markets,
6:24
leveraging role of debt, 4:135–136
and solvency ratio, 3:352–353
financial leverage ratio, 3:353, 354,
628–629
financial markets. see markets
financial performance
evaluating, 3:705–713
accounting standards and ROE,
3:710–712
and changes in business strategy,
3:705–709
and war chests, 3:709
integrated analysis of, 3:361–362
projecting, 3:713–723
consistency of forecasts, 3:722
example, 3:720–721
forecasting operating profit,
3:715–716
issues with, 3:716–719
with market-based valuation,
3:714–719
for multiple periods, 3:719–722
financial position, statements of, 3:12,
212. see also balance sheet
financial projections, in high-yield credit
analysis, 5:635–636
financial ratios
in company analysis, 5:230–232
financial analysis with, 3:326–330
and inventory write-downs, 3:420–425
financial reporting, 3:41–97
accounting process, 3:51–68
financial statements in, 3:666–68
Investment Advisers Ltd. case study,
3:51–68
records in, 3:53–65
accounting systems for, 3:71–73
debits and credits, 3:72–73, 76–92
flow of information in accounting
systems, 3:72
Investment Advisers Ltd. case study,
3:76–92
accounts on financial statements
equations for, 3:46–51
as financial statement elements,
3:44–46
types of, 3:45
of accruals, 3:69–71
for business segments, 3:377–378
classifying business activities for,
3:42–43
and financial statements in security
analysis, 3:73–74
estimates and analyst judgment about
entries, 3:73–74
manipulation of data, 3:73–74
misrepresentation of data, 3:74
practice problems, 3:93–95
and purpose of financial statements, 3:42
regulations on, 5:61
solutions to problems, 3:96–97
of valuation adjustments, 3:71
Financial Reporting Council, 3:662; 4:7
financial reporting quality, 3:641–702
about, 3:641–642

finance leases (continued)
defined, 3:530, 620
and financial statements, 3:526–531,
5:337–339
initial recognition and measurement
of, 3:620–622
US GAAP on, 3:619, 620
financial statement impact of,
3:622–624
operating leases vs., 4:83n.11
for lessees, 3:517–525, 608–619, 624
for lessors, 3:526–531, 619–624
on long-lived assets, 5:513–531
on non-current liabilities, 3:607–624
recognition and measurement of,
3:609–611, 620–622
sales-type leases
defined, 3:530, 620
financial statement impact of,
3:530–531, 622–624
US GAAP on, 3:619, 620
for treating operating leases as, 3:522–525
financial account, BOP, 2:364
Financial Accounting Foundation, 3:105
Financial Accounting Standards
Advisory Council, 3:105
Financial Accounting Standards Board
(FASB), 3:105–106
benefits of common reporting
standards from, 5:561
and convergence of global reporting
standards, 3:112
development of standards, 3:101,
102
disclosure requirements of, 3:662
evolving standards, 3:132–133
and GIPS Valuation Principles, 1:250
revenue recognition standards,
3:153–154, 166
as standard-setting body, 3:103
financial analysis, 3:317–391
about, 3:317–318
for business/geographic segments,
3:377–379
reporting requirements, 3:377–378
segment ratios, 3:378–379
common ratios, 3:339–367
activity ratios, 3:341–347
categories, 3:340
integrated analysis with, 3:360–367
interpretation and context,
3:340–341
liability ratios, 3:347–352
profitability ratios, 3:356–360
solvency ratios, 3:352–356
computations vs., 3:320–322
credit analysis, 3:374–376
credit rating process, 3:374–376
research on ratios in, 3:376
disclosure of income tax information,
3:574–575
equity analysis, 3:368–373
industry-specific ratios, 3:371–373
research on ratios in, 3:373
valuation ratios, 3:368–371
and expense recognition on income
statements, 3:379
framework for, 3:319–320
inventory management in, 3:427–439
assessing, 3:659–666
conditions conducive to low-quality reports, 3:660
disciplining mechanism, 3:660–666
motivations for issuing low-quality reports, 3:659–660
conservative vs. aggressive accounting, 3:654–659
bias in application of accounting standards, 3:658–659
in extractive industries, 3:655–656
detection of issues, 3:666–694
accounting choices and estimates, 3:672–689
areas of choice/estimate and analyst concerns, 3:686–689
presentation choices, 3:667–672
warning signs, 3:689–694
disciplining mechanisms, 3:660–666
auditors, 3:663–664
market regulatory authorities, 3:661–663
and motivation for manipulation, 3:665–666
private contracts, 3:664
and earnings quality, 3:643, 652
practice problems, 3:697–699
solutions to problems, 3:700–702
spectrum of quality for financial reports, 3:643–654
and aggressive presentation, 3:646, 648–649
and biased accounting choices, 3:646–653
departures from GAAP, 3:653–654
“GAAP, decision-useful, but sustainable?” level, 3:645–646
“GAAP, decision-useful, sustainable, and adequate returns” level, 3:645–646
presentation of non-GAAP financial measures, 3:648–652
“Within GAAP, but biased choices” level, 3:646–652
“Within GAAP, but ‘earnings management’” level, 3:652–653
financial reporting standards, 3:99–144
about, 3:100
and barriers to single standards framework, 3:128–129
constraints on financial reports, 3:118–119
convergence of US GAAP and, 3:126–127
and effective standards frameworks, 3:128
elements of financial reports, 3:119–121
objective of financial reports, 3:116–117
qualitative characteristics of financial reports, 3:117–118
requirements for financial statements, 3:121–126
global, 3:111–115
of IFRS vs. US GAAP, 3:130–131
monitoring developments in, 3:131–137
by CFA Institute, 3:132–133
with company disclosures, 3:133–137
for new products/types of transactions, 3:132
and objectives of financial reporting, 3:100–102
practice problems, 3:140–142
reports based on, 3:641–642
solutions to problems, 3:143–144
standard-setting bodies, 3:103–111
accounting standards boards, 3:104–106
for industry-specific regulation, 3:103–104
regulated authorities, 3:106–111
financial reports
constraints, 3:118–119
elements, 3:119–121
high-quality, 3:643–646
low-quality conditions conducive to, 3:660
and earnings quality, 3:643, 652
motivations for, 3:659–660
on spectrum of quality, 3:653–654
manipulation of motivation for, 3:665–666
prevalence of, 3:642
objectives, 3:116–117
qualitative characteristics, 3:117–118
spectrum of quality, 3:643–654
and aggressive presentation, 3:646, 648–649
and biased accounting choices, 3:646–655
departures from GAAP, 3:653–654
“GAAP, decision-useful, but sustainable?” level, 3:645–646
“GAAP, decision-useful, sustainable, and adequate returns” level, 3:645–646
presentation of non-GAAP financial measures, 3:648–652
“Within GAAP, but biased choices” level, 3:646–652
“Within GAAP, but ‘earnings management’” level, 3:652–653
financial risk(s), 4:91
defined, 1:549n.28; 4:286
drivers of, 4:296–297
and leverage, 4:133–136
non-financial vs., 4:294–295
types of, 4:286–288
financial risk management, normal distribution in, 1:549
financial sector, IMF analysis of, 2:375
Financial Services Agency, 2:271; 3:103, 104, 113
Financial Services Authority (FSA), 2:269–271; 4:440, 5:351
financial services sector, 5:193
Financial Stability Board (FSB), 5:472
financial statement analysis, 3:5–39
see also applications of financial statement analysis about, 3:6
asset revaluations in, 3:491–492
framework, 3:31–35
conclusions and recommendations, 3:34–35
data analysis and interpretation, 3:34
data collection, 3:33
data processing, 3:33–34
follow-up, 3:35
purpose and context of analysis, 3:32
information sources, 3:11–30
auditor’s reports, 3:27–30
balance sheet, 3:12–16
cash flow statement, 3:22–24
financial notes, 3:24–26
financial statements, 3:11–30
internal and external sources of information, 3:30
management commentary/MD&A, 3:26–27
statement of changes in equity, 3:20–22
statement of comprehensive income, 3:16–20
supplementary information, 3:11–12
supplementary schedules, 3:24–26
practice problems, 3:38
scope of, 3:6–11
and earnings announcements, 3:8–11
and profit vs. cash flow, 3:7–8
solutions to problems, 3:39
financial statements. see also specific statements
in accounting process, 3:66–68
business activities on, 3:43
capitalisation vs. expensing of costs on, 3:69–474
and direct financing leases, 3:526–531
effects of share repurchases on, 4:166–169
elements of, 3:34–46
finance vs. operating leases on, 3:517–530
leases on, 3:622–624
LIFO liquidation on, 3:414–416
long-lived assets on, 3:500–501
notes to financial statements
Alcatel-Lucent, 3:435–436
Caterpillar Inc., 3:410
disclosures, 3:126
financial statement analysis, 3:24–26
LIFO liquidation, 3:415
PACCAR, 3:647
Volvo Group, 3:422–423
purpose of, 3:42
relationships of, 3:336
requirements of IFRS framework, 3:121–126
for disclosures in notes, 3:126
from IAS No. 1, 3:124–126
required statements, 3:122–123
statement features, 3:123
for structure and content, 3:124–126
and revenue recognition on income statements, 3:165–166
and sales-type leases, 3:530–531
in security analysis, 3:73–74
estimates and analyst judgment about entries, 3:73–74
manipulation of data, 3:73–74
misrepresentation of data, 3:74
financial statistics, in company analysis, 5:231–232
financial system
efficiency of, 5:58–59
functions of, 5:6–14
capital allocation efficiency, 5:13–14
determining rates of return, 5:12–13
for individuals, 5:7–12
well-functioning, 5:58–60
Financial Times Stock Exchange (FTSE), 5:192. see also entries beginning
with FTSE
financing
of leveraged buyouts, 6:177–178
of real estate investments, 6:187–188
(see also mortgages)
short-term, 4:215–220
asset-based loans, 4:218
borrowing approaches, 4:217–218
costs of borrowing for, 4:219–220
sources of, 4:215–217
venture capital, 6:179–180
financing activities
cash flow from, 3:269
on cash flow statements, 3:267–268, 288
defined, 3:22, 42
financing cash flow, 3:269
financing costs, 4:46
finished goods inventory, 3:396, 427
finite lives, intangible assets with, 3:496
Finland
disinflation, 2:223
EU membership, 2:354n.18
exchange rate regime, 2:428
IFRS adoption, 3:113
inflation targeting, 2:279
MSCI multi-market index, 5:96
real equity returns, 1:396
residential mortgage loans, 5:483
returns on bonds, bills, and equities,
5:133
total returns, 1:404, 407
two-tier boards, 4:10
firearms industry, governmental influences on, 5:225
firewalls, 1:56, 85
firm commitment offerings. see
underwritten offerings
firm policies
for fair dealing, 1:108–110
on loyalty, prudence, and care,
1:101–102
firms
benefits of GIPS compliance for,
1:220–221
buy-side, 4:251
commitment to ethics by, 1:38
compliance with Code of Standards,
1:34
defined, 1:263
demand and supply analysis, 2:23–48
marginal returns, 2:23–28
scale and profit maximization, 2:43–48
shutdown analysis, 2:28–43
informing, of referral arrangements,
1:187
knowledge of the law, 1:50–51
and market structure, 2:62–63
in microeconomics, 2:5
monopolist, 2:96–97
overemphasis of results from, 1:77
records as property of, 1:171, 172
sell-side, 4:251
starting new, 1:136
theory of the firm, 2:5
first-degree price discrimination,
2:98–99
first-in, first-out (FIFO) method
adjustment, 3:399
conversion from LIFO to FIFO,
3:408–413
and cost of goods sold, 3:222
defined, 3:172
inflation and LIFO vs., 3:404–406
other valuation methods vs.,
3:399–402
in periodic vs. perpetual inventory
systems, 3:402
first lien debt, 5:592
first loss piece, 5:500
first mortgage debt, 5:592
first-order risk, 4:298n.28
First Section, in TOPIX, 5:82–83
fiscal deficit. see budget deficit
fiscal multiplier, 2:306–307
fiscal performance, in sovereign credit
analysis, 5:643–644
fiscal policy, 2:294–312
and aggregate demand, 2:149, 294–295
balanced budget multipliers,
2:307–308
and deficits/national debt, 2:299–301
defined, 2:255
evaluating, 2:311–312
fiscal multiplier, 2:306–307
and government receipts/expenditures,
2:295–298
implementation of, 2:308–311
and inflation, 2:164
influence on economy, 2:254–256
of Keynesian school, 2:211
and monetary policy, 2:312–316
and Ricardian equivalence, 2:308
roles and objectives, 2:294–302
and tax policy, 2:304
tools, 2:302–308
types of, 2:302
Fisher, Irving, 2:266; 4:78n.2
Fisher effect, 2:266–267
Fisher index, 2:224–225
Fitch Ratings
commercial paper ratings, 5:373
investment-grade ratings, 5:297n.2,
348
long-term ratings matrix, 5:598–599
municipal debt ratings, 5:647
outsourcing credit analysis to, 4:300
role in credit markets, 5:597, 598
soviet ratings, 5:366
five forces framework for strategic
industry analysis, 5:205–206
five-way decomposition of ROE,
3:365–367
fixed asset turnover ratio
and average age of depreciable assets,
3:508–510
calculating, 3:342
interpreting, 3:346, 506
fixed charge coverage ratio, 3:354–355,
628, 629
fixed costs
average, 2:31–35
and breakeven points, 4:141
and capacity, 5:608
and degree of operating leverage,
4:129–131
and degree of total leverage,
4:138–139
fixed production costs, 3:397n.7
and leverage, 3:352–353; 4:121–124
quasi-, 2:33
total, 2:31–35, 41–42
fixed-for-floating interest rate swaps,
6:22–23
fixed income analysts, 5:6
fixed-income arbitrage, 4:262
fixed income asset backed strategies, for
hedge funds, 6:163
fixed income convertible arbitrage
strategy, for hedge funds, 6:163
fixed-income derivatives, 5:15
fixed income general strategies, for
hedge funds, 6:163
fixed-income indices, 5:98–101,
355–356
fixed-income instruments, 5:15, 17
fixed-income investments. see also
bonds
as assets under management, 6:151
and GDP forecasts, 2:180–181
as underlying, 6:5; 36–37
fixed-income market, 5:345–396
classification of, 5:346–355
corporate debt, 5:371–379
bank and syndicated loans,
5:371–372
commercial paper, 5:372–375
corporate notes and bonds,
5:375–378
function of, 5:345–346
indices, 5:355–356
investors in, 5:355–357
non-sovereign bonds, 5:369–371
practice problems, 5:391–393
primary, 5:357–363
private placements, 5:362–363
public offerings, 5:358–362
quasi-government bonds, 5:370–371
secondary, 5:363–365
short-term funding for banks,
5:382–388
repurchase and reverse repurchase
agreements, 5:384–387
retail deposits, 5:383
wholesale funds, 5:383–384
solutions to problems, 5:394–396
soviet bonds, 5:365–369
credit quality, 5:366–367
names of, 5:365–366
types, 5:367–368
structured financial instruments, 5:379–382  
capital protected instruments, 5:380  
leverage instruments, 5:381  
participation instruments, 5:380–381  
yield enhancement instruments, 5:380
supranational bonds, 5:370–371  
fixed-income securities, 5:295–344  
issuers of, 5:381  
investing in, 5:381  
practice problems, 5:267–268  
for floating-rate notes, 5:421–425  
for market market instruments, 5:425–429  
yield spreads, 5:437–441  
fixed parity currency regimes, 2:428, 431  
fixed price tender offer, 4:165  
fixed-rate bonds, 5:367, 416–421  
fixed-rate debt, 4:82, 5:350  
fixed-rate mortgages, 1:330–331; 5:482  
fixed rate perpetual preferred stock, 4:83  
flag patterns, 1:696–697  
Flaherty, James, 5:225  
flash reports, 1:109  
flat price, 5:409–413  
flexibility of short-term borrowing strategy, 4:217  
in sovereign debt credit analysis, 5:643–644  
flexible exchange rates, 2:427  
float, 4:205  
float-adjusted market-capitalization weighting, 5:87, 89, 90  
floaters. see floating-rate notes (FRNs)  
float factor, 4:205  
floating interest rates, capped, 5:507  
floating-rate bonds (floaters) inverse, 5:381  
outstanding, 5:332  
as participation instruments, 5:380–381  
sovereign, 5:367  
floating-rate debt, 4:82; 5:350  
floating-rate notes (FRNs) cash flows from, 5:321–322  
as corporate debt, 5:376  
coupon rate for, 5:299  
inverse, 5:322  
yield measures for, 5:421–425  
floating-rate tranches, 5:497  
flows, floating-rate note, 5:322  
flotation costs, 4:102–104  
flow-of-funds indicators, 1:710–714  
Arms index, 1:710–712  
margin debt, 1:712  
and market indicators, 1:713  
mutual fund cash position, 1:712–713  
new equity issuance, 1:713–714  
secondary offerings, 1:714  
FOB shipping, 5:299  
see free on board shipping  
FOFs. see funds of funds  
follow-up, financial statement analysis, 3:35  
FOMC. see Federal Open Market Committee  
Foolish Four investment strategy, 1:596–597  
Forbes, 1:431–432  
Ford Foundation, 4:245  
Ford Motor Company credit ratings, 5:603  
dividends, 4:154  
EPS and P/E for, 1:408, 409  
P/S value of, 5:267  
revenue recognition, 3:157  
RSI of, 1:702–704  
share class arrangements, 5:157–158  
similar companies to, 5:189  
forecasts  
consistency of, 3:722  
and financial analysis, 3:380  
of financial performance, 3:713–723  
of operating profit, 3:715–716  
and quality of financial reports, 3:659  
short-term cash flows, 4:191–192  
foreclosures, 5:481, 484–485  
foreign bonds, 5:311–312, 352  
foreign countries, diversification of investment in, 4:360  
foreign currency reserves, at central banks, 2:271, 286  
foreign direct investment (FDI), 2:333–334  
foreign exchange gains, 5:169  
foreign exchange market (FX market), 2:391–410  
about, 2:391–392  
currency conventions, 2:393–394  
functions, 2:398–404  
nominal vs. real exchange rates, 2:394–398  
participants in, 2:404–407  
size and composition of, 2:407–410  
foreign exchange risk, 4:197  
foreign investments direct, 2:333–334  
income from, 2:368  
portfolio, 2:333  
foreign-owned financial assets sub-account, BOP, 2:364  
foreign portfolio investment (FPI), 2:333  
ForgeHouse, Inc., 3:181  
Form 3 (SEC), 3:110  
Form 4 (SEC), 3:110  
Form 5 (SEC), 3:110  
Form 6-K (SEC), 3:109  
Form K (SEC), 3:110  
Form 10-Q (SEC), 3:109  
Form 11-K (SEC), 3:110  
Form 20-F (SEC), 3:108–109  
Form 40-F (SEC), 3:108–109  
Form 144 (SEC), 3:110  
format of balance sheets, 3:215–217  
of cash flow statements, 3:267–268  
cash flows and non-cash activities, 3:267–269  
cash flows from operating activities, 3:270–280  
and IFRS vs. US GAAP, 3:269–270  
of income statements, 3:149–153  
formative-stage financing (venture capital), 6:179  
Form DEF-14A (SEC), 3:109  
former clients, soliciting, 1:133–138  
former employers  
documents and files, 1:134  
in performance presentation, 1:123  
Fortune magazine, 6:158
disinflation, 2,223
domestic and international debt securities, 5,313
equity risk premiums, 4,87
EU membership, 2,354n.18
exchange rate regime, 2,428
expected inflation, 2,274
exports of goods, 2,329
frequency of capital budgeting, 4,63
GIPS country sponsor, 1,228
government debt, 2,254
government spending, 2,125
growth of share repurchases, 4,163
inflation-linked bonds, 5,324, 368
labor productivity, 2,177
maturity of mortgages, 5,482
MSCI multi-market index, 5,96
overconfidence and mispricing in markets, 5,137
public sector spending, 2,255
real equity returns, 1,396
residential mortgage loans, 5,483
returns on bonds, bills, and equities, 5,153
say on pay, 4,18
sovereign bonds, 5,365
total returns, 1,404, 408, 421
trade balance with US, 2,126
Treasury bills, 1,305n.5, 375n.16
underground economy, 2,120
France Telecom, 1,422
Frankfurt Stock Exchange, 1,698; 5,165
FRAs. see forward rate agreements
fraud, 1,79, 674; 5,34, 61
Freddie Mac. see Federal Home Loan Mortgage Corporation
free cash flow after dividends, 5,612
free cash flow before dividends, 5,612
free cash flow to equity (FCFE)
in cash flow statements, 3,302–303
in discounted cash flow approach, 6,183–184
in equity valuation models, 5,246, 250
free cash flow to the firm (FCFF), 3,302–303; 480n.6; 5,612n.25
free float, 5,165n.24
free float adjusted (term), 1,404n.13
free-floating market-capitalization-weighted indices, 5,87
free-floating currency regimes, 2,432–433
Freeman Spogli & Co., 5,163
free on board (FOB) shipping, 3,672
free operating cash flow to debt, 3,375
Freeport-McMoRan Copper & Gold, 5,274
Freescale Semiconductor, 5,363–368
free trade, 2,330, 335–336
free trade areas (FTAs), 2,354
French, Kenneth, 4,86n.15, 86n.16, 403; 5,133
French consumer price index (CPI), 5,368
frequency absolute, 1,391
of compounding, 1,308–310, 317–318
cumulative, 1,392–396
relative, 1,392–396
frequency distributions, 1,389–397
construction of, 1,390–392, 396–397
cumulative, 1,400–401
defined, 1,389
and holding period formula, 1,390
and relative frequency, 1,392–396
frequency polygons, 1,399–400
frictionally unemployed (term), 2,218
frictionless markets, 4,410
Friedman, Milton, 2,60
FRNs. see floating-rate notes
Frontier Airlines, 4,300n.30
Frontiers of Finance Survey, 5,136
Frontline, 5,210
front-running, 1,183
FSA. see Financial Services Authority
FSB. see Financial Stability Board
FTAs. see free trade areas
FTC. see US Federal Trade Commission
F-test
for differences between variances, 1,644–645
F-distribution, 1,736–739
FTSE 100 Index
line chart, 1,674–675
as relative return objective benchmark, 4,447
as relative risk objective benchmark, 4,442
relative strength analysis, 1,682
target market for, 5,82
FTSE All Share Index, 1,600–601
FTSE EPRA/NAREIT Global Real Estate Index Series, 5,102, 104
FTSE Eurotop 100, 1,403–404
FTSE Global All Cap Index, 1,640
FTSE Global Bond Index Series, 5,355
FTSE Global Small Cap Index, 5,94
Fujifilm, 5,223
full employment, 2,160
full employment equilibrium GDP, 2,159–160
full employment level of output, 2,146
full price, 1,375n.14; 5,409–413
full-hiplication approach, 1,578
fully amortized bonds, 5,316–318
fully amortizing loans, 5,483
function of expense method, 3,500–501
functions, defined, 2,6
fundamental analysis, 1,670n.1, 672–674; 5,128–129
fundamental factor models, 4,403
fundamental growth strategies, for hedge funds, 6,164
fundamentals company, 5,609–613
industry, 5,609
in multiplier models, 5,264–265
Fundamentals of Compliance (GIPS Section 1.0), 1,231–232
about, 1,230
recommendations, 1,232
requirements, 1,231–232
fundamental value. see also intrinsic value
hedge fund strategies based on, 6,164
market vs., 5,119
top-down vs. bottom-up approaches to, 5,244


Germany (continued)

fixed-income indices, 5:355
flotation costs, 4:102
foreign direct investment, 2:333, 334
frequency of capital budgeting, 4:63
GIPS country sponsor, 1:228
government liabilities/debt, 2:300
government revenues/expenditures, 2:295, 296
government spending, 2:125
gross domestic product, 2:179–181
hyperinflation, 2:222
IFRS adoption, 3:113
inflation-linked bonds, 5:324
investments in BASF, 5:165
investment spending, 2:136
labor productivity, 2:177
leading economic indicator, 2:239
management reporting requirements, 3:26
MSCI multi-market index, 5:96
net borrowing/lending, 2:297
non-sovereign government bonds, 5:369
overconfidence and mispricing in markets, 5:137
residential mortgage loans, 5:482, 483 returns
on bonds, bills, and equities, 5:153
real equity returns, 1:396
total returns, 1:404, 408
risk tolerance and equity ownership, 5:154–155
share repurchases, 4:163
sovereign bonds, 5:365–367
trade balance with US, 2:126
Treasury paper, 1:303n.3, 375n.16
two-tier boards, 4:10
underground economy, 2:120
Ghana, 2:279; 3:115; 5:96
GICs. see Guaranteed Investment Contracts
GICS. see Global Industry Classification Standard
Giffen, Robert, 2:21
Giffen goods, 2:21
gifts
from clients, 1:63
limiting, 1:60
from related parties, 1:62–63
Gillette, 5:176
gifts, 2:290–291; 5:365, 366
Ginnie Mae. see Government National Mortgage Association
GIPS. see Global Investment Performance Standards
GIPS Advertising Guidelines (GIPS Section I), 1:254–255
purpose, 1:254
advertisement defined, 1:254
and GIPS regulatory requirements, 1:254
information included in advertisement, 1:254
requirements, 1:254–255
sample advertisements, 1:287–289
with annualized returns, 1:287–288
with five years of annual returns, 1:288–289
with period-to-date and annualized returns, 1:288
GIPS Council, 1:224, 228
GIPS Executive Committee, 1:224
clarifications by, 1:226, 231, 232, 257
implementation recommendations of, 1:227–228
objectives of, 1:225
GIPS Handbook, 1:226, 231, 232, 257
GIPS Valuation Principles (GIPS Section II), 1:250–253
fair value, 1:250–251
and input data, 1:230, 233
Private Equity (GIPS Section I.7), 1:245, 246
for private equity, 1:252, 253
for real estate, 1:251–253
recommendations, 1:252–253
requirements, 1:251–252
Giro system, 4:204
Gitman, Lawrence, 4:104n.43
GlaxoSmithKline plc
audit opinions on, 3:663
capital budgeting at, 4:414–415
in pharmaceutical industry, 5:189
ROE for, 5:173–175
stakeholder management at, 4:18
strategic analysis, 5:219–221
global bond mutual funds, 4:257
global bonds, 5:312
Global Commodity Composite, 1:291
global debt markets, 5:347–348
global depository receipts (GDRs), 5:167
global economic developments, IMFs analysis of, 2:375
Global Equity Composite, 1:221
global equity markets, 5:347–348
global ETFs, 4:260
global finance markets
dand depository receipts, 5:166–169
direct investing, 5:165–166
equity securities in, 5:150–155
integration and growth in, 5:164–165
corporate governance and, 4:6
deflation in, 2:222
ethical dimensions of, 1:15
housing sector behavior in, 2:207
IMFs operations after, 2:375
mediaBs effect on regulation following,
4:27
political pressure to amend standards in, 3:112
velocity of money in, 2:232
volatility in, 1:645–646
global financial reporting standards, 3:111–115. see also International Financial Reporting Standards (IFRS)
Global Industry Classification Standard (GICS), 5:190
common-size analysis using, 3:196–197, 249
identifying similar companies with, 5:189
levels of, 5:192
Global Integrated Monetary and Fiscal Model, 2:314
Global Investment Performance Standards (GIPS), 1:122, 153, 219–295, 561
GIPS compliance
benefits of, 1:220–221
claiming, 1:220, 227
GIPS-compliant historical performance, 1:226–227
composites, 1:221
country sponsors, 1:228–229
effective date, 1:227
GIPS Advertising Guidelines (GIPS Section III), 1:254–255
purpose, 1:254
requirements, 1:254–255
GIPS Valuation Principles (GIPS Section II), 1:250–253
fair value, 1:250–251
recommendations, 1:252–253
requirements, 1:251–252
glossary of terms, 1:260–269
historical background, 1:224
implementation of, 1:227–228
List of Composite Descriptions (Section V.0.1), 1:290–293
need for, 1:219–220, 225
objectives, 1:225
overview, 1:226
practice problems, 1:294
provisions, 1:229–250
Calculation Methodology (Section I.2), 1:233–234
Composite Construction (Section I.3), 1:234–235
Disclosure (Section L4), 1:235–238
Fundamentals of Compliance (Section I.0), 1:231–232
Input Data (Section I.1), 1:233
overview, 1:229–231
Presentation and Reporting (Section I.5), 1:238–240
Private Equity (Section I.7), 1:245–248
Real Estate (Section I.6), 1:240–244
Wrap Fee/SMA Portfolios (Section I.8), 1:248–250
purpose, 1:223
sample advertisements, 1:287–289
with five years of annual returns, 1:288–289
with one-, three-, and five-year annualized returns, 1:287
with period-to-date and one-, three-, and five-year annualized returns, 1:288
sample presentations, 1:270–286
asset management company, 1:271–272
investment firm balanced growth composite, 1:270–271
large-cap SMA composite, 1:284–286
private equity with fund of funds by strategy, 1:277–280
private equity with fund of funds by vintage year, 1:280–282
private equity with primary fund vehicle, 1:282–284
real estate with closed-end funds, 1:275–277
real estate with open-end funds, 1:273–275
solutions to problems, 1:295
structure, 1:222
Verification (GIPS Section IV), 1:221–222, 256–260
and performance examinations, 1:260
required procedures, 1:257–260
scope and purpose, 1:256–257
website, 1:226, 231, 232, 257
Global Investment Performance Standards Committee, 1:224
globalization, 2:330–331, 334–335
global minimum-variance portfolios, 4:364
global supply chains, 2:335
Global S&P REIT index, 2:362
gold, 3:19
Goldman Sachs, 3:458
golden cross pattern, 3:257
goods markets, 2:205
good-on-close orders, 5:324
as dealers, 5:320
industry concentration and pricing power, 5:209
QUIDS at, 5:298
short interest ratio, 1:710
gold standard, 2:269, 426
good-on-close orders, 5:48
good-on-open orders, 5:48
goods capital, 2:124
cost of goods sold, 3:61, 222, 343
discretionary infrastructure, 2:12
durable, 2:205
elasticity of demand for, 2:12
final, 2:117
Giffen, 2:21
inferior, 2:15, 19–23
intermediate, 2:117
manufacturers’ new orders for, 2:236
non-discretionary, 2:12
nondurable, 2:205
normal, 2:15, 19–23
substitution and income effects on, 2:19–23
value of, 2:119–120
Veblen, 2:21
goods markets, 2:124
good-till-cancelled orders (GTCs), 5:48
goodwill accounting, 3:234
analyst adjustments for, 3:736–738
on balance sheets, 3:233–236
from business combinations, 3:468–469
defined, 3:46n.3, 466
economic, 3:234
and financial reporting issues, 3:682
financial reporting issues with, 3:688
on income statements, 3:178
ratio comparisons for, 3:737–738
valuation of, 3:231–232
goodwill impairment, 3:235–236
Google, 2:90; 3:109–110; 4:12, 318
Gooftkind, Christopher L., 5:604n.21
Gordon, Myron L., 4:89n.22
Gordon growth model, 5:254–258
applying, 5:255–257
and dividend discount model based approach, 4:88
justified value of price multiple from, 5:264
with no current dividend, 5:257–258
Gosset, W. S., 1:589n.16
governance corporate (see corporate governance) risk, 4:279–286
defined, 4:273
for enterprises, 4:279–281
establishing risk tolerance level, 4:281–283
example, 4:285–286
with risk budgeting, 4:283–285
governance codes, 4:34
governance committees, 4:23
government(s)
ethical principles and laws by, 1:7–8
in FX market, 2:405
and industry analysis, 5:203, 224–226
regulation of monopolies, 2:101–102
revenue from alternative trade policies, 2:352
shareholder conflicts with, 4:13
as stakeholders, 4:10
and strategic analysis, 5:220
governmental industry classification systems, 5:196–197
ANZSIC system, 5:196
ISIC system, 5:196
NACE system, 5:196
NAICS system, 5:197
government bond mutual funds, 4:257
government bonds, 4:458
government-controlled authorization, 2:93, 100
government debt, 2:254, 308. see also national debt; sovereign debt
government equivalent yield, 5:419
government expenditures and business cycle theories, 2:217
government fiscal policy, 2:295–298
Government National Mortgage Association (Ginnie Mae), 5:486, 499
Government of Singapore Investment Corporation, 4:247
government policies, as risk drivers, 4:296
government receipts, fiscal policy and, 4:295–298
Government National Mortgage Association (Ginnie Mae), 5:486, 499
Government of Singapore Investment Corporation, 4:247
government policies, as risk drivers, 4:296
government receipts, fiscal policy and, 4:295–298
government-related sector, 5:346–347
government sector, 2:125–126; 5:346–347
government services, in GDP, 2:119
government spending, 2:125–126
and aggregate demand, 2:133–134, 151 current, 2:303
and fiscal policy, 2:149
and taxes, 2:306–307
government-sponsored enterprises (GSEs), 5:369, 486
GPs, see general partners
Graham, Benjamin, 1:673
Graham, John, 4:104
grand supercycle, Elliott wave, 1:716
graphic presentations of data, 1:397–401
for financial analysis, 3:337–339
frequency polygons and cumulative frequency distributions, 1:399–401
histograms, 1:398–399
Great Depression, 2:209, 222, 373–374
“greater than” alternative hypothesis, 1:618, 619, 645
GreatWall Information Industry Co., Ltd., 1:724, 728
Greece
EU membership, 2:354n.18
exchange rate regime, 2:428
exports of service, 2:329
as GIPS country sponsor, 1:228
government debt, 2:254
government spending, 2:126
labor productivity, 2:177
MSCI multi-market index, 5:96
national debt, 2:299
public sector spending, 2:255
residential mortgage loans, 5:483
total returns, 1:404, 407
underground economy, 2:120
the “Greeks,” 4:298
green bonds, 4:39
greenfields, constructing, 5:211
greenmail, 4:165n.22
Green Mountain Coffee Roasters, 1:408
Greenspan, Alan, 2:212
grey market, 5:359
GRI, see Global Reporting Initiative
gross domestic product (GDP), 2:116–132
in business cycles, 2:208
components of, 2:123–127
contributions to global, 5:150–151
and cyclically adjusted budget deficit, 2:309
equilibrium, 2:159–169
inflationary gap, 2:163–164
long-run equilibrium, 2:159
recessionary gap, 2:159–163
stagflation, 2:165–166
external sector, 2:126–127
and foreign direct investment, 2:333–334
GDP vs., 3:486, 346
and government debt, 5:644
and government liabilities/debt, 2:300–301
government revenues/and expenditures, 2:295–296
government sector, 2:125–126
household and business sectors, 2:124
long-run growth rate vs. fluctuations in, 2:146–147
measuring, 2:116–119
and net borrowing/lending, 2:297
gross domestic product (GDP) (continued)
nominal, 2:120–123
and other income measures, 2:127–132
in performance projections, 3:714
potential, 2:155
and demand-pull inflation, 2:231
and long-run equilibrium GDP, 2:159
measuring growth of, 2:175–177, 179–180
production function of, 2:170–171
and price indices, 2:227
and production function, 2:170–171
real, 2:120–123
and economic growth, 2:169
identifying recession with, 2:199–200
and international trade, 2:336
in Japan, 2:168–169
and shifts in aggregate supply/demand, 2:166–169
in sovereign credit analysis, 5:643
sustainable growth in, 2:179–180
trade-to-GDP ratio, 2:331–334
values of goods and services, 2:119–120
gross investment, aggregate demand and, 2:135
gross margin, financial reporting quality and, 3:692
gross national product (GNP), 2:116n.2, 328–329
gross-of-fees, 1:264
gross-of-fees returns
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:264
Disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
Presentation and Reporting (GIPS Section I.5), 1:239, 240
Private Equities (GIPS Section I.7), 1:246
Real Estate (GIPS Section I.6), 1:242, 244
gross-of-fees SI-IRR, 1:243, 247
gross profit, 3:152
and inflation, 3:405–406
and inventory valuation method, 3:400–402
and LIFO liquidation, 3:414, 416–417
in periodic vs. perpetual inventory systems, 3:402–404
gross profit margin, 3:356, 357
calculating, 3:406
and conversion from LIFO to FIFO, 3:412–413
defined, 3:357
and income statement ratios, 3:198
on income statements, 3:152
inventory management with, 3:426, 427
and inventory write-downs, 3:425
in ratio analysis, 3:325
gross reporting of revenue, 3:163–164
gross return, 4:327–328
group decision making, 1:153
Groupe Danone (Danone)
cash flow statement, 3:296–297
income statement, 3:149–152, 185
market capitalization, 1:422
segment ratio evaluation, 3:378–379
Groupe Euromonde, 4:172
grouping by function (term), 3:152
grouping by nature (term), 3:152
Group of Twenty (G-20), 5:472
Groupon, 3:669–762
group research, 1:153, 156
growth
economic, 2:169–181
and aggregate demand, 2:151
in China, 2:175
in Mexico, 2:178
production function and potential GDP, 2:170–171
and real GDP, 2:169
RTAs and spillovers of, 2:356
sources of, 2:172–175
sustainable, 2:169, 175–181
and trade, 2:332–333
industry, 5:609
growth cyclical companies, 5:191n.3
growth industries, 5:190, 191, 221
growth investors, 3:728
growth rate(s)
solving TMV problems for, 1:327–329
sustainable, 4:89
growth stage (industry life-cycle), 5:214–215
growth stocks, 5:97
growth strategies, for hedge funds, 6:164
growth theory, 2:170–171
GRSs. see global registered shares
Grupa Zywicie SA, 5:654, 658
GSEs. see government-sponsored enterprises
G-spread, 5:438, 441
GTCs. see good-till-cancelled orders
Guarantee certificates, 315–318
Guggenheim Mid Cap Value Fund Class A
Guidance Statements, GIPS, 2:226, 231, 232, 257
Gulf Cooperation Council, 4:24
Gulf of Mexico oil spill (2010), 4:37
Gupta, Parveen, P., 1:632
Hackers, 4:290
"hackcuts," 5:386; 6:172
Hall, Martin, 4:202n.6
Halliburton, 5:219–221
Hamada, Robert S., 4:92n.28
Hang Seng Index, 1:440; 4:239–241
hard hurdle rate, 6:166
Harley-Davidson Credit Corp., 5:475, 476
Harley-Davidson Motor Company customer loyalty to, 2:80
RSI for, 1:683
securitization by, 5:475–476, 478
Harley-Davidson Motorcycle Trust 2005-2, 5:475, 476
harmonic mean, 1:419–420
harmonic series, 1:419n.25
Harmonized Index of Consumer Prices (HICP), 2:226; 5:368
Harvard University, 4:244
Harvey, Campbell R., 4:97n.32, 98n.36, 104
head and shoulders patterns, 1:687–691
about, 1:687–688
determining price targets from, 1:690
inverse, 1:689–691
setting price targets with, 1:688–691
headline inflation, 2:226–227
Health Care sector, 5:193
health risk, 4:292
healthy corrections, 1:693
heavy truck industry, similar companies in, 5:189
Heckscher–Ohlin model, 2:335, 346–347
hedging
hedge fund indices, 5:103; 6:151, 169
Hedge Fund Research, Inc. (HFRI), 6:160, 162
Hedge funds, 6:159–174
about, 6:158–161
as alternative investments, 5:15; 6:150
classifying, 6:162
defined, 5:103; 6:154
diversification benefits, 6:165
downside frequencies, 6:157
due diligence, 6:173–174, 204
fees, 6:166–169
global assets under management, 6:151
historical returns and volatility, 6:152
investment strategies for, 6:162–164
equity hedge strategies, 6:164
event-driven strategies, 6:162–163
macro strategies, 6:163–164
relative value strategies, 6:163
and leverage, 6:170
as pooled investments, 4:261–262; 5:19
and redemptions, 6:170–172
registration of, 6:171
returns, 6:156–157, 166–169
risks of, 6:157, 204
sample selection bias for, 1:599
shareholder activism with, 4:25–26
Sharpe ratios, 6:156
valuation issues, 6:172–173
hedging portfolios, 6:46
hedgers, 5:9–10, 21, 39
hedging
with credit default swaps, 6:32
with derivatives, 6:67–68
with forward contracts, 6:17
with futures, 6:21
in FX markets, 2:399
inflation hedges, 6:185, 197
in OTC derivatives market, 6:12
and risk budgeting, 4:285
hedging pressure hypothesis, 6:199
held-for-sale assets, impairment of, 3:497
held for trading (term), 3:237
held-to-maturity (term), 3:236
Hellenic CFA Society, 1:228
herding behavior, 5:137
HERE, 3:650
Herfindahl, O. C., 2:103
Herfindahl–Hirschman Index (HHI), 2:103–104
Hershey, 5:219–221
Herstatt risk, 4:288n.19
heterogeneous beliefs assumption, 4:421, 424–425
heuristics, 6:183n.29
Hewlett-Packard Company
cash flow analysis of comparables,
3:304–305
cross-sectional common-size analysis,
3:252–254
evaluation of liquidity measures, 3:350
peer groups for, 5:200
two-factor analysis, 5:209
HFRI. see Hedge Fund Research, Inc.
HFRI Fund of Funds Index, 6:160, 161
HFRI Fund Weighted Composite Index,
6:160
HFRI Hedge Fund of Funds Index,
6:161
HFRX Equal Weighted Strategies EUR
Index, 5:104
HFRX Global Hedge Fund Index, 5:104
hhgregg, 5:162
HHI. see Herfindahl–Hirschman Index
Hibor. see Hong Kong interbank offered rate
HICP. see Harmonized Index of Consumer Prices
hidden orders, 5:47–48
highest requirement, following, 1:52
high net worth investors
alternative investments of, 6:151,
153–154
commercial property investment by,
6:188
high-quality financial reports
and earnings quality, 3:643
on spectrum of quality, 3:644–646
high water marks
for fund investments, 6:158
hedge funds, 6:166
high-yield bond mutual funds, 4:257
high yield bonds. see non-investment-grade bonds
high-yield credit analysis, 5:634–641
corporate structure in, 5:638–639
covenant analysis, 5:639–640
debt structure and leverage in,
5:636–638
equity-like approach to, 5:640–641
financial projections for, 5:635–636
liability in, 5:634–635
debt structure and leverage in
non-investment grade ratings,
5:634
high-yield indices, 5:99
Hillenbrand, Inc., 5:199
Hirschleifer, John, 4:78n.2
Hirschman, A. O., 2:103
histograms, 1:398–399
historical cost, 3:121
historical equity risk premium approach,
4:86–88
historical mean return, 4:333–334
historical performance, GIPS-compliant,
1:226–227
historical returns, 4:333–338
of alternative investments, 6:151
of commodities, 6:196–197
estimating cost of equity with,
4:86–88
historical mean return and expected return,
4:333–334
of investment classes, 6:151–152
nominal and real returns of asset classes in other countries,
4:336–337
nominal returns of major US asset classes,
4:334–335
of private equity investments, 6:181–183
of real estate investments, 6:190–191
real returns of major US asset classes,
4:335–336
risk–return tradeoff for, 4:337–338
historical risk
risk of major asset classes, 4:337
risk–return tradeoff, 4:337–338
historical simulation, 1:560–561
HFMA. see Hong Kong Monetary Authority
HKSE. see Hong Kong Stock Exchange
HM Treasury, 5:304
holding-period date, 4:160–162
Holding Bank of Scotland, 5:322
holding companies, 5:304, 638
holding-period rate of return, 5:567
holding period return (HPR), 4:319
defined, 1:365, 390
finding ending value of investment
with, 1:552
formula, 1:390
and time-weighted rate of return,
1:368
holding periods
CAPM assumptions about, 4:410
for private equity investments, 5:163
holding period yield (HPY), 1:374, 376
holiday effect, 5:132
Home Depot, 4:300; 5:208, 216–217
Homestead Small Company Stock Fund,
1:431
homogeneity of expectations assumption,
4:391–392, 410–411, 426
Honda Motor Company, 2:82; 5:189, 268
Honda. see Honda Motor Company
Honeywell, 2:101
Hong Kong
Asian financial crisis, 2:335
common law system, 4:27
effects of global recession, 2:162
exchange rate regime, 2:428,
430–431
exchange rate targeting, 2:286
external trade sector, 2:207
GIPS country sponsor, 1:229
and IFRS, 3:114
margin requirements of, 5:41
mean and standard deviation of stock returns, 1:440, 441
in MSCI EAFE, 1:404
MSCI multi-market index, 5:96
regulatory authorities, 3:661
risk tolerance and equity ownership,
5:155
share repurchases, 4:163
Hong Kong dollar
AUD/HKD exchange rate, 2:396–398,
402–404
currency code, 2:393
exchange rate regime for, 2:430–431
international bonds outstanding in,
5:349
Hong Kong interbank offered rate
(Hibor), 5:299, 351
Hong Kong Monetary Authority
(HKMA), 2:430–431
Hong Kong Monetary Authority
Investment Portfolio, 2:427
Hong Kong Securities and Futures Commission, 5:29
Hong Kong Society of Financial Analysts, 1:229
Hong Kong Stock Exchange (HKSE)
GDRs on, 5:167
HSBC Holdings on, 4:391–392
T + 2 settlement, 4:161n.11
total market capitalization in, 5:152
volatility of returns, 4:236–239
warrants on, 5:331
Honus Wagner baseball card, 6:202n.34
Hopkins, Sheila, 1:714
horizontal common-size analysis,
1:395n.50, 331, 334–336
horizontal demand schedule, 2:67–68
horizontal equity, 2:304
horizon yield, 5:258–532, 567
host country, for FDI, 2:333
Hostess, 4:300n.30
hostile takeovers, 4:26
Hotchkis and Wiley Mid Cap Value A Fund,
1:434
Hotchkis and Wiley Small Cap Value A Fund,
1:431
hot issue securities, 1:108
hours worked, 2:220
household saving rate, 2:130, 148, 205
household sector, 2:115–116, 124
household wealth, aggregate demand
and, 2:147–148
housing industry, demographic influences in, 5:224
housing prices, 2:148, 151
housing sector, cyclical behavior of,
2:206–207
HPR. see holding period return
HPY. see holding period yield
H&R Block, Inc., 5:199
HSBC Holdings, 2:406; 4:391–392
human capital
collateral of companies based on, 5:622
defined, 4:281n.12
and economic growth, 2:172
and long-run aggregate supply, 2:155,
156
human rights, 4:38
Hungary
exchange rate regime, 2:429
GIPS country sponsor, 1:229
government debt, 2:254
hyperinflation, 2:222
inflation targeting, 2:279
MSCI multi-market index, 5:96
public sector spending, 2:255
hurdle rate, 1:361; 6:166
Hurricane Katrina, 5:212
Hutchinson Whampoa, 4:236–239
hybrid derivatives, 6:35
hybrid ETFs, 4:260
hybrid funds, 4:255–256, 258–259
hybrid mortgages, 5:483
hybrid securities, 5:592n.4

Level I Cumulative Index
I-45
Hynix, 5:209
hyperinflation, 2:222–223
hypothesis(-es) alternative, 1:618–619, 645
defined, 1:617
formulations of, 1:618–619
null, 1:618–619
hypothesis testing, 1:585, 615–667
with correlation, 1:649–651
in data mining, 1:595–596
nonparametric inference, 1:647–652
and parametric tests, 1:647–648,
651–652
and tests with correlation, 1:649–651
use of, 1:648–649
practice problems, 1:655–660
p-value approach, 1:625–626
solutions to problems, 1:661–667
steps in, 1:617–625
tests with means, 1:626–642
mean differences, 1:633–642
single mean, 1:626–633
tests with variance, 1:642–647
equality of two variances, 1:644–647
single variance, 1:642–644
uses of, 1:616
Hyundai, 5:189
Hyundai Steel, 1:327
I
IAS. see International Accounting Standards
IASB. see International Accounting Standards Board
Ibbotson, Roger G., 1:424–426; 4:91n.27
Iberdrola, 1:422
IBM (International Business Machines) and Logitech, 2:336
presentation choices by, 3:667
security selection example, 4:466
yield spread, 5:439, 440
IBRD. see International Bank for Reconstruction and Development
ICB. see Industry Classification Benchmark
iceberg orders, 5:47
Iceland, 2:279, 429
ICMA. see International Capital Market Association
IDA. see International Development Association
ideal currency regime, 2:425
identifiable intangible assets, 3:232–233
idle cash, share repurchases using, 4:167
if-converted method for diluted earnings per share, 3:188–190
IFRS. see International Financial Reporting Standards
IFRS Foundation, 3:104–105
IG Group plc, 5:30
IID returns. see independently and identically distributed returns
IKEA, 5:164
illegal activity, disclosure of, 1:128
illiquid asset investments
due diligence with, 6:204
and historical returns, 6:152
risk issues with, 6:203
valuation of, 6:172
ILO. see International Labour Organization
IMF. see International Monetary Fund
IMM. see International Monetary Market
immediate or cancel orders (IOC s), 5:48
impact investing, 4:37
impact lag, 2:310
Impairment of Assets (IAS 36), 3:494
impairments
financial reporting quality and, 3:694
of goodwill, 2:235–236
of intangible assets, 3:231, 496–497
of long-lived assets, 3:494–497, 657
of PPE, 3:230, 495
imperfect competition. see also monopolistic competition
break-even analysis in, 2:40–41
marginal revenue in, 2:29–30
revenue in perfect vs., 2:35–36
implementation
compliance education and training, 1:145
ESG considerations, 4:38–39
fiscal policy, 2:308–311
GIPS, 1:227–228
investment strategy, 4:465–469
implicit interest rate, 3:524–525
implicit price deflator for GDP, 2:121–123
implied forward rates, 5:434
implied volatility, 6:41
import license, 2:351
imports
in balance of trade, 1:29
in business cycles, 2:366
in business cycles, 2:207, 208
defined, 2:329
exchange rate and prices of, 2:151
terms of trade for, 2:329–330
import-substitution policy, 2:344n.10
impulse wave, 1:715–717
inadequate compliance procedures, 1:143, 148
inadequate supervision, 1:148–149
in “arrears” payment structure, 5:422
InBev USA LLC, 3:469, 717, 718
incentive fees
for fund investments, 6:158
for hedge funds, 6:166
for private equity, 6:176–177
incentives
establishing appropriate structures for, 1:146
for low-quality financial reports, 3:659–660
for monopolist firms, 2:96–97
in stakeholder management, 4:18
in tax policy, 2:304
incident-reporting procedures, 1:133
income
adjusted CSOI, 3:669–672
aggregate, 2:115–132
in economy, 2:115–116
and expenditures, 2:133–140
in gross domestic product, 2:116–132
real personal, 2:237
comprehensive
defined, 3:47n.4, 243n.22
IFRS on, 3:19, 199, 202
on income statements, 3:199–202
on statement of comprehensive income, 3:19–20
US GAAP on, 3:19, 199, 202
Conceptual Framework on, 3:120
and consumer installment debt, 2:238
and consumer spending, 2:205
convergence of, 2:171
defered, 2:226
disposable, 2:130, 205, 307, 370
from foreign investments, 2:368
and GDP, 2:127–132
on income statements, 3:154
interest, 5:332
national, 2:129, 369
net, 3:290–293
and asset revaluations, 3:491–492
coefficient of variation of, 3:372
defined, 3:47, 152
and direct method for overall statement of cash flows, 3:289–290
on income statement, 3:152
and indirect method for overall statement of cash flows, 3:290–293
per employee, 3:372
relationship of cash flow and, 3:691
in ROE, 5:172–174
net operating, 5:500, 6:191–192
operating
adjusted consolidated segment, 3:669–672
coefficient of variation for, 3:372
and enterprise value, 5:273–274
and operating leverage, 4:136
other comprehensive
accumulated, 3:242–243
defined, 3:47n.4, 199
on income statements, 3:201–202
on statement of comprehensive income, 3:19–20
personal, 2:129–130
and portfolio management, 4:248
real, 2:18–19
taxable, 3:550–555
total comprehensive, 3:199
income approach to GDP, 2:116,
127–129
income approach to real estate valuation, 6:191–192
income effects
on elasticity of demand, 2:12
on Giffen and Veblen goods, 2:21
and law of demand, 2:18–19
on normal and inferior goods, 2:19–23
in perfectly competitive markets, 2:65
with price decrease, 2:20–23
income elasticity of demand
calculating, 2:16
for consumers, 2:14–15
in perfect competition, 2:68–69
income inequality, 2:336
income per capita measure, 5:643
income returns
defined, 1:264
Real Estate (GIPS Section 1.6), 1:242
income statement method of tax recognition, 3:560n.4
indifference curves
of optimal investor portfolio, 4:368–369
in portfolio selection, 4:348–350
and risk aversion, 4:343–345
and strategic asset allocation, 4:463
indirect currency quote, 2:410
indirect exchange rate, 2:410
indirect-format statements, 3:66, 271–274
indirect investment
in commercial real estate, 6:188
in infrastructure assets, 6:201
in real assets, 5:26
indirect method for cash flow from operating activities, 3:682–683
indirect method for overall statement of cash flows, 3:290–293
adjustments to net income, 3:290–293
converting direct method and, 3:293–294
defined, 3:23, 270–271
indirect taxes, 2:303, 305
Inditex, 1:422
individual investors
and enterprise risk management, 4:280–281
operational risks for, 4:292
portfolio management for, 4:242
risk drivers for, 4:297
risk interactions for, 4:293–294
risk management as concern of, 4:270
risk management process for, 4:277
risk tolerance of, 4:282n.14
individually managed accounts, 4:261; 6:196
individuals
borrowing by, 5:8
financial system functions for, 5:7–12
information-motivated trading by, 5:10–11
raising of equity capital by, 5:9
rationality of markets vs., 5:137
risk management by, 5:9–10
savings of, 5:7–8
spot market trading by, 5:10
Indonesia
Asian financial crisis, 2:335
business investment, 2:173
exchange rate regime, 2:429
floating-rate bonds, 5:367
foreign investment, 5:164
IFRS adoption, 3:114
inflation targeting, 2:279
MSCI multi-market index, 5:96
industrial countries, terms of trade for, 2:329
industrial loans, 2:237
Industrial/Producer Durables sector, 5:193
Industrial Production Index, 2:237
industry(-ies)
in company analysis, 5:229–230
defined, 5:189
describing, 5:202–203
diversification according to, 4:453
fundamentals of, 5:609
ICB definition, 5:192
peer group vs., 5:200
performance of, 5:202–203
recovery rate variation by, 5:594
as risk drivers, 4:296
statistics on fundamentals for, 5:609
structure of, 5:608
industry analysis, 5:187–242
and company analysis, 5:228–232
in credit analysis, 5:610–611
elements of, 5:229–232
spreadsheet modeling in, 5:232
defined, 5:188
describing industries for, 5:202–203
external influences, 5:222–228
in airline industry, 5:227–228
demographic, 5:223–224
governmental, 5:224–226
macroeconomic, 5:222
social, 5:226–227
technological, 5:222–223
industry classification systems,
5:192–202
commercial, 5:192–196
governmental, 5:196–197
and peer groups construction, 5:198–202
strengths and weaknesses, 5:197
practice problems, 5:237–240
with similar companies, 5:189–191
solutions to problems, 5:241–242
strategic, 5:204–222
barriers to entry in, 5:206–208
capacity in, 5:211–212
example, 5:219–222
five forces framework, 5:205–206
industry concentration in, 5:208–211
industry life-cycle model in,
5:213–218
market share stability in, 5:212–213
price competition in, 5:218–219
uses, 5:188–189
industry capacity, see capacity
Industry Classification Benchmark (ICB), 5:189–190, 192–193
industry classification systems,
5:192–202
commercial, 5:192–196
example, 5:194–196
GICS standard, 5:192
ICB system, 5:192–193
representative sectors in, 5:193–194
RGS system, 5:192
governmental, 5:196–197
ANZSIC system, 5:196
ISIC system, 5:196
NACE system, 5:196
NAICS system, 5:197
and peer group construction,
5:198–202
for Brink’s Home Security, 5:199–200
for semiconductor industry,
5:200–202
strengths and weaknesses, 5:197
industry concentration, 5:208–211, 219
industry experts, 1:83–84
industry-life-cycle model, 5:213–218
airline industry in, 5:227
example, 5:217–218
industry classifications based on, 5:203
limitations of, 5:217
stages of industry life cycle, 5:213–216
in strategic analysis, 5:220
using, 5:216–217
industry-specific ratios, for equity analysis, 3:371–373
industry-specific regulation, of financial statements, 3:103–104
inefficient markets, intrinsic value in,
5:119
inelastic demand, 2:67
defined, 2:10
perfectly inelastic demand, 2:11
price changes and total expenditures with, 2:13–14
infant industry argument, 2:348
inferior goods
defined, 2:15, 19
substitution and income effects on,
2:19–23
infinite divisibility assumption, 4:411
inflation
and business cycles, 2:201, 221–235
core, 2:226–227
cost-push (wage-push), 2:229–231
costs of, 2:273–275
defined, 2:163, 221
deflation, hyperinflation, disinflation,
2:222–223
demand-pull, 2:231–232
expectations about, 2:232–233
expected, 2:273, 275; 4:333
and GDP deflator, 2:121–123
headline, 2:226–227
and LIFO vs. FIFO, 3:404–406
monetary policy and inflation rate,
2:289
and New Classical school, 2:215
and nominal interest rates, 2:266–268
in phases of business cycle, 2:198
price indices, 2:223–227
in stagflation, 2:165–166
targets for, 2:281–282
types of, 2:229–232
and unemployment, 2:217–218
unexpected, 2:273–275
inflationary gap, 2:163–164
inflation duration, 5:570
inflation hedges, 6:185, 197
inflation-linked bonds (linkers), 5:323–326, 368
inflation premium, 1:303
inflation-protected bond mutual funds, 4:257
inflation rate, 2:163n.18, 221–222, 289
Inflation Reports, 2:281
inflation targeting, 2:279–285
credibility of, 2:280–281
exceptions to, 2:283–284
and independence of central banks, 2:280
and monetary policy in developing countries, 2:284–285
transparency of, 2:281–283
by US Federal Reserve system, 2:284
inflation uncertainty, 2:274–275
inflows, 1:360, 593–595
information
account, 1:101
in accounting systems, 3:72
additional, 1:260
in advertisements, 1:254
on applicable laws, 1:51
comparative growth, 3:336–337
confidential, 1:127–129, 139, 189–190
considering, before taking action, 1:101
decision-useful, 3:644–646
dissemination of, 1:84, 108–109, 185–186
electronic, 1:126
for financial statement analysis, 3:11–30
auditor’s reports, 3:27–30
balance sheet, 3:12–16
cash flow statement, 3:22–24
financial notes, 3:24–26
internal and external sources of information, 3:30
management commentary/MD&A, 3:26–27
statement of changes in equity, 3:20–22
statement of comprehensive income, 3:16–20
supplementary information, 3:11–12
supplementary schedules, 3:24–26
from financial statements, 3:67–68
flow of, in accounting systems, 3:72
income tax, 3:570–575
manipulation of, 1:96–97
market anomalies and prior, 5:135–136
market efficiency and availability of, 5:122
material, 1:81, 88–90
material nonpublic (see material nonpublic information)
misrepresentation of (see misrepresentation)
onpublic
acting on, 1:87, 90
analyze recommendations as, 1:89–90
controlling, 1:88
defined, 1:82
standards for priority of transactions with, 1:182
in strong-form efficient markets, 5:128
out-of-date, 1:76–77
outside, 1:71
potential misrepresentation of, 1:73
public, 5:125–128
retention of, on new media, 1:171
from SEC forms, 3:108–111
supplementary, 1:268; 3:11–12
verification of outside, 1:71
information-acquisition costs, 5:123–124
informationally efficient financial systems, 5:58–59
informationally efficient markets, 4:392;
5:58–59, 117. see also efficient market(s)
information asymmetry, 4:11–12
information-based manipulation, 1:92
information cascades, 5:138
information discovery, 6:40–41
information-motivated trading, 5:10–12, 26
information ratio, 4:424
information technology (IT) sector, 2:174
infrastructure, risk, 4:274
infrastructure assets, 6:155, 200–201
infrastructure exchange traded funds, 6:155
infrastructure investments, 6:200–201
assets for, 6:155
categories of, 6:200
forms of, 6:201
risks and returns with, 6:201
infrequent items, 3:181–182
ING, 1:422
initial margin requirements, 5:22, 41, 6:18
initial PAC collar (initial PAC band), 5:495
initial period fixed-rate mortgages, 5:483
initial public offerings (IPOs)
and conflicts of interest, 1:182–183
defined, 5:50
duties to clients, 1:111
ethical decision-making framework for, 1:222–25
as exit strategies, 6:181
in markets, 5:51–52
and pricing anomalies, 5:135
and technical analysis, 1:714
and venture capital, 5:162
initial recognition, taxable and accounting profit at, 3:564
initiation date, forward contracts at, 6:74–76
innovation
and international trade, 2:336
and perfect competition, 2:79
input(s)
model, 1:96
productivity in terms of, 2:23–24
and short-run aggregate supply, 2:154, 156
Input Data (GIPS Section I.1), 1:233
about, 1:230
recommendations
general, 1:233
for private equity, 1:248
for real estate, 1:244
requirements
general, 1:233
for private equity, 1:245
for real estate, 1:241
input productivity, 2:23
INSEAD, 5:153
insider trading, 1:671; 5:61, 122
Insider Trading Directive, 5:122n.11
installment credit accounts, 4:202
installment method of revenue recognition, 3:162–163
installment sales, revenue recognition for, 3:162–163
Institute of Supply Management (ISM), 2:240
institutional investors
alternative investments of, 6:151
commercial property investment by, 6:188
fixed-income securities for, 5:356
portfolio management for, 4:242–248
banks, 4:246
defined-benefit pension plans, 4:243
endowments and foundations, 4:244–246
insurance companies, 4:246
investment companies, 4:247
sovereign wealth funds, 4:247
qualified, 5:360
relative risk objectives of, 4:442
insurance
credit, 4:202
and credit default swaps, 6:31, 32
and derivatives, 6:7
protective puts as, 6:135–136
risk transfer with, 4:303–305
for risky portfolios, 4:361
insurance companies, 4:246, 302
as financial intermediaries, 5:33–34
monoline, 5:47
regulation of, 5:62
insurance contracts, 5:25
Insurance Medical Group, Ltd., 3:181
insurance recoverables, 3:657
intangible assets
acquisition of, 3:466–469
as alternative investments, 6:155
in asset-based valuation, 5:274–276
on balance sheets, 3:231–236
from business combinations, 3:468–469
capitalization of, 3:681–682, 687
depreciation/amortisation of, 3:175, 231
and ethical conduct, 1:16
identifiable, 3:232–233
impairment of, 3:231, 496–497
on income statements, 3:178
internally-developed, 3:466–468
long-lived, 3:462
not from business combinations, 3:466
and research, 3:232, 467
Intangible Assets (IAS 38), 3:490
integrated analysis with ratios, 3:360–367
DuPont analysis, 3:362–367
liquidity of company, 3:360–361
performance of company, 3:361–362
ROE decomposition, 3:362–367
integrity, 1:20, 79, 193
Integrity of Capital Markets [Standard of Professional Conduct II], 1:40–41, 80–97
Market Manipulation [Standard II(B)], 1:92–97
application of the standard, 1:93–97
guidance, 1:92–93
text of, 1:41, 92
Material Nonpublic Information [Standard II(A)], 1:80–91
application of the standard, 1:87–91
compliance procedures, 1:84–87
guidance, 1:80–84
text of, 1:40–41, 80
Intel Corporation
industry concentration and pricing power, 5:209
as multinational corporation, 2:334
share price and FTC investigation, 5:127, 128n.21
sub-industry classification, 5:200, 201
technological influences, 5:223
intellectual-capital based companies, collateral of, 5:622
interbank funds, 5:383–384
interbank money market, 5:350
Intercontinental Exchange, 5:209
interdepartmental communications, 1:85
interdepartmental referral arrangements, disclosure of, 1:187
interest
accrued, 1:374–375; 5:409–413
and amortisation of bonds, 3:592–596
carried, 1:245; 261
cash for, 3:286–287
discount, 4:195
as form of payment, 2:115
neutral rate of, 2:288
open, 6:20
shifting interest mechanism, 5:499
short, 1:709–710
simple, 1:304
in USCP vs. ECP markets, 5:374–375
Interest (ASC 835), 3:474n.11
interest coverage ratio, 3:354, 375, 628, 629
interest expenses
accounting for, 3:592–596
classification of, 3:517n.32
EBITDA/interest expense, 5:613
EBIT/interest expense, 5:613
and revenue, 5:644
interest income, 5:532
interest-indexed bonds, 5:325
interest-only mortgages, 5:483–484
interest-only tranches, structured, 5:493n.11
interest payments, 3:592–596
interest rate(s)
and AD curve, 2:112–143
capped floating, 5:507
default, 5:501
effective, 3:589, 593
equilibrium, 5:12–13
and equilibrium price for money, 2:264–265
forwards on, 6:77–78
and housing sector behavior, 2:206
implicit, 3:524–525
market, 3:589
maturity structure of, 5:429–437
in monetary policy, 2:149–150
and monetary transmission
mechanism, 2:277–279
and money, 2:267
and money duration, 5:568
and mutual fund cash position indicator, 1:713
net interest pass-through rates, 5:487
neutral, 2:288
nominal, 1:303; 2:266–268
official, 2:276
and private equity valuation, 6:184
quoted, 1:308
real, 1:303; 2:136
and repo rate, 5:385
of residential mortgage loans, 5:482–483
and returns on fixed-income securities, 5:527–532
risk-free
and equity risk premium, 4:90n.23
and expected return, 4:333
nominal, 1:303
and option pricing/valuation, 6:89
real, 1:303; 4:333
and sovereign debt, 5:641–642
term structure of, 5:415
solving TMV problems for, 1:327–329
stated annual, 1:308
and swap rates/foreign exchange rates, 2:418–422
term structure of, 5:564; 6:78
and time value of money, 1:302–303
as underlying, 6:36–37
interest rate risk, 5:533–570
approximate modified duration, 5:539–541
bond convexity, 5:555–563
defined, 5:527
duration of bond portfolio, 5:551–553
effective duration, 5:541–544
and floating-rate notes, 5:321
and investment horizon, 5:565–570
key rate duration, 5:545
Macaulay duration, 5:534–538, 565–570
modified duration, 5:538–539
money duration, 5:553–555
price value of a basis point, 5:554
properties of bond duration, 5:545–550
safety measures for, 4:197
yield volatility, 5:564–565
interest rate sensitivity, 1:578
interest rate swaps, 5:23–24; 6:22–23
interest received in advance, 1:558–559, 1:301
interests (client), 1:102
interests (in businesses)
as investments, 3:565
minority/noncontrolling, 3:17, 243
tergenerational data mining, 1:596
interim cash, 1:305–306
interim period disclosures, 3:169n.25
intermarket analysis, 1:718–720
Intermediate Technical Analysis
(Murphy), 1:718
intermediate goods, 2:117
internal control systems, 3:29–30
internal credit enhancements, 5:306–307
internal development costs, 3:477–481
internal (executive) directors, 4:9, 21
internal dispersion
defined, 1:264
Disclosure (GIPS Section 1.4), 1:236
Presentation and Reporting (GIPS Section 1.5), 1:239
Real Estate (GIPS Section 1.6), 1:243
Verification (GIPS Section IV), 1:259
internally-developed intangible assets, 5:466–468
internal rate of return (IRR)
for capital budgeting, 4:49–50
multiple IRR problem, 4:60–62
no IRR problem, 4:60–62
defined, 4:322
discounted cash flows, 1:360–365
evaluating R&D programs with IRR
rule, 1:361–362
NPV and IRR rules, 1:362–363
problems with IRR rule, 1:363–365
ranking conflicts of NPV and IRR, 4:56–59
due to cash flow patterns, 4:56–57
due to project scale, 4:58–59
SI-IRR
defined, 1:267
gross-of-fees, 1:243, 247
net-of-fees, 1:243, 247
Private Equity (GIPS Section I.7), 1:245, 248
Real Estate (GIPS Section I.6), 1:243
internal sources of information, for financial statement analysis, 3:30
internal valuation
defined, 1:264
Real Estate (GIPS Section I.6), 1:242, 252
International Accounting Standards
(IAS), 3:121–126
Borrowing Costs (IAS 23), 3:474n.11
Employee Benefits (IAS 19), 3:625n.16
Impairment of Assets (IAS 36), 3:494
Income Taxes (IAS 12), 3:550, 557,
560n.4, 562, 564, 565
Intangible Assets (IAS 38), 3:490
Inventories, 3:419
Leases (IAS 17), 3:513n.29, 514n.30
Presentation of Financial Statements
(IAS 1), 3:124–126, 148n.1
Statement of Cash Flows (IAS 7), 3:517n.32
International Accounting Standards
Board (IASB), 3:104–105
benefits of common financial standards, 5:63, 564
development of standards, 3:101, 102,
132–133
disclosure requirements, 3:662
Framework for the Preparation and Presentation of Financial Statements, 3:101, 170
and GAAP, 3:126–127
and GIPS valuation principles, 1:250
global reporting standards, 3:111, 112
on income, 3:154
income statement standards, 3:148n.1
management reporting framework of, 3:26
on objective of financial reporting, 3:100
revenue recognition standards, 3:153–154, 166
as standard-setting body, 3:103
International Bank for Reconstruction
and Development (IBRD; World Bank)
bonds issued by, 5:347
definition of emerging markets, 5:642n.42
superannated bonds from, 5:370
use of ISIC system, 5:196
in World Bank Group, 2:376–377
International Business Machines. see IBM
International Capital Market Association (ICMA), 5:363
International Development Association (IDA), 2:376–377
international ETFs, 4:260
International Federation of Accountants, 3:27
International Federation of Technical Analysts, 1:673
adoption of, 3:113–115
on amortisation, 3:175, 592, 593
on available-for-sale classification, 3:200–201
for balance sheets, 3:14–15
on barter transactions, 3:163
on bond cost reporting, 3:597
on borrowed funds, 3:465
business segments in, 5:189n.1
on capitalisation of interest costs, 3:474n.11, 476
for cash flow statements, 3:22, 268
on comprehensive income, 3:19, 199, 202
on debt issuance costs, 3:599
on decision-useful information, 3:644n.2
on deferred tax assets/liabilities, 3:552, 553, 567
on depreciation, 3:175, 487
on diluted earnings per share, 3:193
on direct-format statements, 3:274–276
disclosure of operating segment, 5:200
disclosure requirements, 3:134–135, 499–500
for EU capital markets, 3:111
fair value definition, 3:463n.2
on financial statement ratios, 3:709–710
and global reporting standards, 3:111–115
on impairments, 3:230, 231, 494–497, 500
income definition, 3:43n.1, 154
for income statements, 3:148, 152
on income taxes, 3:550
for indirect-format statements, 3:271–274
for intangible assets, 3:466–468
on interest, 3:286, 465, 517n.32, 596
on inventory valuation, 3:396–398, 417–419, 427
on investment property, 3:510
and IOSCO, 3:107
on leases, 3:514, 522, 530n.36, 607, 611, 613–614, 619–620, 624
non-IFRS measures in financial reports, 3:668
on pension plans, 3:625
on percentage-of-completion method, 3:158
on residual value, 3:175
on revaluation, 3:481, 490, 491, 493–494
on revenue recognition, 3:154, 155, 166, 167, 656
on ROE, 5:173n.29
SEC’s adoption of, 3:407
on segment reporting, 3:377
and Swiss financial statements, 3:106
on taxable profit vs. accounting profit, 3:560–562
on tax issues, 3:557
and US GAAP
conservatism in, 3:656–658
on financial reporting standards, 3:130–131
frameworks of, 3:126–127
on income taxes, 3:550, 575–578
International Labour Organization (ILO), 2:219
International Monetary Fund (IMF)
bailouts, 2:358, 375–376, 378–380
capital restrictions study, 2:360
exchange rate regime classification, 2:428
founding, 2:374
and globalization, 5:314–316
and ISIC, 5:196
loans to governments from, 5:642
mandates of, 2:375
monetary and fiscal policy model, 2:314
as supranational agency, 5:370
International Monetary Market (IMM), 2:400
International Organization for Standardization (ISO), 2:393
International Organization of Securities Commissions (IOSCO), 3:26, 104, 106–107, 661–662
International Paper Company, 3:508–510
InternationalPrivate Equity and Venture Capital Valuation Guidelines, 6:182
International Standard Industrial Classification of All Economic Activities (ISIC), 5:196
international standards for auditing (ISAs), 2:27
International Swaps and Derivatives Association (ISDA), 6:11
international trade, 2:327–390
and aggregate demand, 2:151
balance of payments, 2:361–373
BOP accounts, 2:362–363, 369–371
components of, 2:363–365
imbalance since 1996, 2:371–373
paired transactions, 2:366–368
for United States, 2:364–365
benefits and costs, 2:335–339
and capital flows, 2:348–361
comparative advantage, 2:339–347
absolute vs., 2:339–346
and intertemporal trade, 2:465n.2
and exchange rates, 2:435–445
and interest, 2:436–437
and monetary policy, 2:436–437
and national income accounts, 2:436–437
of Europe, 2:436–437
global investors’ concerns, 2:327–328
patterns and trends, 2:331–335
practitioners, 2:349–351
solutions to problems, 2:388–390
and tariffs, 2:327–331
trade organizations, 2:373–380
function and objectives, 2:378–380
International Monetary Fund, 2:374–376
World Bank Group, 2:376–377
World Trade Organization, 2:377–378
trade restrictions/agreeements, 2:348–361
capital restrictions, 2:358–361
export subsidies, 2:351–353
quotas, 2:351
interest rates, 2:348–353
trading blocs, common markets, and economic unions, 2:354–358
International Trade Organization (ITO), 2:374
interpolated spread (I-spread), 5:439
interquartile range (IQR), 1:427n.27
inter-temporal trade, 2:369, 370
international standards for auditing (ISAs), 2:27
intervals
between dates for dividends, 2:161–163
temporal, 1:682
interval scales, 1:388
Intesa Sanpaolo, 1:422
in the money, 6:27, 87
intrafirm pressure, 1:61, 116
intra-industry trade, 2:335
intrinsic value
book vs., 5:176–177
deviations from, 6:672
from dividend discount model, 5:248
in equity valuation, 5:244
of European options, 6:86
market vs., 5:119–120
Introduction, IPS, 4:441
introductory paragraph, audit report, 3:28
Inventories (IAS 2), 3:419
inventory(-ies), 3:395–460
adjustments to, 3:418–425
declines and recoveries of inventory value, 3:419–420
inventory write-downs and financial statements, 3:420–425
with LIFO reserve, 3:407
alternative costing methods, 3:172–173, 688
analyst adjustments for, 3:731–734
anticipation stock, 4:209
average inventory period, 4:187
on balance sheets, 3:221–223
and business cycle, 2:200, 201
commodity, 3:657
cost of, 3:170–172, 396–398, 4:210
cyclical levels of, 2:203–204
days of inventory on hand and activity ratios, 3:341–343
and conversion from LIFO to FIFO, 3:812
inventory(ies) (continued) inventory management with, 3:426–427
and inventory turnover, 3:343–344
and inventory write-downs, 3:424–425
defined, 3:46
as drag on liquidity, 4:184
ending, 3:396, 400–406
and financial reporting issues, 3:690–691
finished goods, 3:396, 427
and GDP, 2:123
growth in, 3:690–691
of manufacturing and merchandising companies, 3:396
number of days of, 4:187, 211
practice problems, 3:441–454
precautionary stocks, 4:208
presentation and disclosure of, 3:426
purchasing—inventory—payables process, 4:212–213
raw materials, 3:396, 427
stock safety, 4:209
solutions to problems, 3:455–460
changes in, 3:417–418
comparison of, 3:404–406
cost of sales, gross profit, and ending inventory, 3:400–402
first-in, first-out, 3:172, 222, 399–402
LIFO liquidation, 3:413–417
LIFO reserve, 3:407–413
periodic vs. perpetual inventory systems, 3:402–404
retail method, 3:221
specific identification, 3:172, 399–402
specific identification methods, 3:222
weighted average cost, 3:222,
399–402
weighted average cost method, 3:172–173
work-in-progress, 3:396, 427
inventory blanket liens, 4:218
inventory management, 3:425–439; 4:208–211
and accounts payable management, 4:212
approaches, 4:209–210
comparisons of companies, 3:428–431
evaluating, 4:210–211
in financial analysis, 3:427–439
financial impact of inventory methods, 4:211
and inventory costs, 4:210
inventory ratios, 3:426–427
in MD&A of annual report, 3:431–432
presentation and disclosure of inventories, 3:426
for single company, 3:433–439
inventory ratios, 3:426–427
inventory revenues, 3:170–172
inventory—sales ratio, 2:203–204, 237
inventory turnover ratio, 3:342–344
and activity ratio, 3:342–343
activity ratio definition, 3:341
calculating, 3:406; 4:186
and conversion from LIFO to FIFO, 3:412
and DOH, 3:343–434
inventory management with, 3:426–427; 4:210–211
inventory ratios, 3:691
and inventory write-downs, 3:424
inventory value, 3:419–420
inventory write-downs in financial analysis, 3:428
and financial ratios, 3:420–425
US GAAP vs. IFRS on, 3:418–419
inverse demand function, 2:8
inverse effect, 5:403, 404
inverse floating-rate bonds (inverse floaters), 5:381
inverse floating rate notes, 5:322
inverse head and shoulders patterns, 1:687, 689–691
inverted yield curve, 5:430
invest (term), 5:8
investing activities on cash flow statement, 3:267,
287–288
defined, 3:22, 42
net cash flow from, 3:268
investment(s)
analyst adjustments for, 3:730–731
in business subsidiaries, branches, associates, or interests, 3:565
and economic growth, 2:172–173
failed, 1:159
net, 2:135–136
restricting, 1:60
saving—investment differential, 2:137–139
short-term funds management, 4:194–197
investment actions. see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V], 4:531–33
fair dealing in, 1:107–108
firm policies on, 1:101–102
impact of, 1:36–37
unethical, 1:53
Investment Advisers Ltd. case study, 3:51–56, 76–92
investment analysis
due diligence in, 1:57
independent, 1:93
limitations of, 1:163–164
Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V], 1:150–172
Communication with Clients and Prospective Clients [Standard V(B)], 1:161–170
application of the standard, 1:165–170
compliance procedures, 1:164–165
eleventh edition revision, 1:32
guidance, 1:162–164
text of, 1:42, 161–162
Diligence and Reasonable Basis [Standard V(A)], 1:150–161
application of the standard, 1:154–161
compliance procedures, 1:154
guidance, 1:150–153
text of, 1:42, 150
Record Retention [Standard V(C)], 1:170–172
application of the standard, 1:172
compliance procedures, 1:171
guidance, 1:170–171
text of, 1:42, 170
Investment and Financial Services Association Limited—Performance Analyst Group, 1:228
investment banks, 1:56–57; 5:29
investment characteristics of assets, 4:318–333
distributional characteristics, 4:338–340
market characteristics, 4:340–341
return characteristics, 4:318–333
covariance of return, 4:331
historical returns, 4:333–338
types, 4:319
variance of returns, 4:331
risk characteristics, 4:332–333
investment committees, 4:24
investment companies, portfolio management for, 4:247
Investment Company Act (1940), 4:261–262; 6:158n.15
Investment Company Institute, 4:252–253
Investment Constraints, IPS, 4:441
investment decision in capital budgeting, 4:48–64
average accounting rate of return, 4:53–54
internal rate of return, 4:49–50
net present value, 4:48–49
payback period, 4:50–53
popularity and use of capital budgeting methods, 4:62–64
profitability index, 4:54
for CFOs, 4:104–105
in hypothesis testing, 1:625
investment firm balanced growth composite, 1:270–271
investment-grade bonds and classification of bond market, 5:348–349
correlations of other asset classes with, 4:458
credit ratings of, 5:598, 599
credit risk with, 5:297–298
yield spreads of, 5:627–628
investment-grade indexes, 5:99
Investment Guidelines, IPS, 4:441
investment horizon for fixed-income securities, 5:532–533
and interest rate risk, 5:565–570
share value for three-year, 5:249
investment ideas, in capital budgeting process, 4:44
investment industry, ethics in, 1:5–28, 35–39
Investment Management Association (United Kingdom), 1:229
Investment Management Association of Singapore, 1:229
issuers of commercial paper, 5:372
justified values of price multiples,  5:264–267
just-in-time (JIT) method, 4:209–210
K
%K (stochastic oscillator), 1:704, 705
Kahn, Robert L., 1:616
kangaroo bonds, 5:311
Kaplan, Paul D., 4:91n.27
Kaserer, Christoph, 4:102
Kazakhstan
GIPS country sponsor, 1:229
and IFRS, 3:114
MSCI multi-market index, 5:96
steel import quotas, 2:351
Kazakhstan Association of Financial and Investment Analysts, 1:229
Kenya, 2:162; 3:115; 5:96
Keynes, John Maynard, 2:211, 212, 266, 426
Keynesian school, 2:210–211, 295
key rate duration, 5:545
Khaitan, Aditya, 3:709
Kidder Peabody, 3:693–694
kimchi bonds, 5:311
Kingdom of Saudi Arabia Capital Market Authority, 3:107n.9
kinked demand curve analysis, 2:85–86, 91
KIT digital, 4:159
Kiwi exchange rate, 2:410
Knight Securities, 5:30
knowingly (term), 1:67
knowledge of the law, failure to maintain knowledge, 1:53
Knowledge of the Law [Standard I(A)], 1:45–53
application of the standard, 1:51–53
compliance procedures, 1:50–51
CFA members and candidates, 1:50
dissociation, 1:50
distribution area laws, 1:50
firms, 1:50–51
legal counsel, 1:50
guidance, 1:45–49
Code/Standards and applicable law, 1:46–49
investment products and applicable law, 1:47–49
violations by others, participation or association with, 1:47
text of, 1:40, 45
known errors, noncorrection of, 1:72
Kodak, 5:223
Koedijk, Kees, 4:104
Kohlb erg Kravis Roberts & Co. L.P., 3:717
Kohl’s Corporation, 1:410; 4:188–189
Komatsu, 5:209, 219
Kondratieff, Nikolai, 1:714
Kondratieff Wave, 1:714
Koninklijke KPN N.V., 3:493–494
Koninklijke Philips Electronics, 5:209
Korea GIPS Committee, 1:229
Korea interbank offered rate (Koribor), 5:351
KOSPI Composite Index, 1:440, 645–646
KPMG SA, 3:664
KPS Capital Partners, L.P., 3:717
Kraft Foods
derecognition of long-lived assets, 3:399
income statement, 3:151–152
income statement ratios, 3:197–199
statement of earnings, 3:150
krona, Swedish, 2:393; 5:349
krone, Norwegian, 2:393; 5:349
Kunkel, Robert A., 4:91n.25
kurtosis, 1:450–454
calculating, 1:452–454
defined, 1:450
evaluating effect of, 4:339–340
sample, 1:451–454
Kuwait, 2:428; 5:96, 349
Kuwait Investment Authority, 4:247
Kyland, Finn E., 2:213
Kyrgyz Republic, 3:114
L
LabCorp, 5:209
labeling problems, 1:508
labor
average product of, 2:25–28
as factor of production, 2:24
in Heckscher–Ohlin model, 2:346
in long-term economic growth, 2:171
marginal product of (see marginal returns in)
productivity of, 2:156, 176–180
in Ricardian model, 2:346
supply of, 2:155, 156, 172
total product of, 2:25–28
labor costs
and aggregate supply, 2:154–156
unit, 2:230, 237
labor force, 2:172, 218
labor laws, 4:19
labor markets, 2:214
labor unions, 4:19
laddering strategies, 4:198
Laffer, Arthur, 3:2034
lagging economic indicators, 2:235, 237–238
Lam Research Corporation, 5:200–202
Large Cap Equity Growth Composite, 1:291
large-cap SMA composite, 1:284–286
large cash flows, 1:233, 264
large country (term), 2:348
large-denomination negotiable CDs, 5:384
Laspeyres index, 2:224
last-in, first-out (LIFO) method
analyst adjustments related to, 3:731–734
financial reporting issues with, 3:688, 691
of inventory valuation, 3:399–417
assigning costs in, 3:400
conversion from LIFO to FIFO, 3:408–413
and cost of goods sold, 3:222
defined, 3:173, 400
inflation and FIFO vs., 3:404–406
and inventory write-downs, 3:420
LIFO liquidations, 3:413–417
LIFO reserve, 3:407–413
other valuation methods vs., 3:399–402
in periodic vs. perpetual inventory systems, 3:402–404
late buying, in housing sector, 2:207
late expansion phase (business cycle), 2:197–199
later-stage financing (venture capital), 6:179–180
Latin America, see also specific countries
Brady bonds, 5:355
currency regimes, 2:428
debt and equity outstanding, 5:348
exchange rate regimes, 2:431–432
institutionally owned real estate, 6:185
trade-to-GDP ratio, 2:332
laundry business, asset-based equity valuation, 5:275
law(s), see also applicable law
distribution area, 1:50
ethical influences on, 1:7–8, 17–18
and governance, 4:20
knowledge of (see Knowledge of the Law [Standard I(A)])
more strict law, 1:46
religious tenets as basis for, 1:52–53
law of demand
defined, 2:6
exceptions for, 2:21
in perfect competition, 2:71
and substitution/income effects, 2:18–19
law of diminishing marginal returns, 2:23
dlaw of diminishing returns, 2:75
law of one price, 5:267; 6:47, 67
lawyers, in securitization process, 5:474–475
Lay, Kenneth M., 1:13n.10
layoffs, 2:219–220
LBOs, see leveraged buyouts
Leading Credit Index, 2:236
leading economic indicators, 2:235–239
lead underwriter, 5:50
learning, personal, 5:138
leases, 3:606–624; 4:83
advantages of, 3:606–607
analyst adjustments for, 3:739–745
direct financing, 3:526–531, 619–622, 624
finance
accounting/reporting by lessee, 3:608–619
accounting/reporting by lessor, 3:619–624
defined, 3:513–514
direct financing leases, 3:526–531, 619–622, 624
financial statement impact of, 3:622–624
operating leases vs., 3:513–531, 607–624
operating vs., 3:607–624
recognition and measurement of, 3:609–611, 620–622
sales-type, 3:619, 620, 622–624
sales-type leases, 3:530–531, 619, 620, 622–624
treating operating leases as, 3:522–525
leases (continued)
for long-lived assets, 3:513–531
finance vs. operating leases, 3:513–531
leverage, 5:8–9, 32–33
leasing, 5:8–9, 32–33
leasing facilities, 1:540–541; 2:375
leasing portfolios, 4:396
leverage rates, effects on leveraged portfolios, 4:398–400
Lenovo Group Limited
activity ratios, 3:343–345
leverage ratios, 3:526–531
Levi, Rafaelina M., 4:97n.34
Lee, Inmoo, 4:290
Lee, Nick, 4:290
Lease versus buy decision, 3:513–516
Lebelle, 5:607
Lebanon
exchange rate regime, 2:428
Lebanon, exchange rate targeting, 2:286
IFRS adoption, 3:114
MSCI multi-market index, 5:96
Lee, Inmoo, 4:102
Le, Rafaelina M., 4:97n.34
Lees, Nick, 4:290
legal counsel, 1:50
legal environment, 4:27
legal factors
with fixed-income securities, 5:311–314
in IFRSs, 4:451–452
legal form of bonds, 5:303–304
legal identity, bond issuer, 5:303–304
legal infrastructure, 4:14
legal maturity, mortgage-backed security, 5:490–491
legal risk, 4:29, 288–289
legal standards, ethical standards vs., 1:17–20
legal tender, 2:269, 428, 429
Lehman Brothers, 4:291, 300; 5:384, 635
Lehman Brothers Aggregate Bond Index, 5:99
Lehman Brothers Global Aggregate Bond Index, 5:104
Lehman Brothers Government Index, 1:578–579
LEI, see Index of Leading Economic Indicators
lenders of last resort, 2:269
lenders' rights, in foreclosures, 5:484–485
lending, 5:8–9, 32–33
lending facilities, 1:540–541; 2:375
lending portfolios, 4:396
leveraged accounts, in FX market, 2:404
Leviticus, 5:117
leveraged buyouts (LBOs), 6:177–179
leveraged loans, covenants for, 5:622–623
leveled, 6:157
financing of, 6:177–178
as pooled investments, 4:263
as private equity investments, 5:162, 163
target companies for, 6:178–179
leveraged instruments, 5:381
leveraged loans, covenants with, 6:177–178
leveraged ownership, of real estate, 6:186
leveraged portfolios
capital market line for, 4:396–400
with different lending and borrowing rates, 4:398–400
with equal lending and borrowing rates, 4:397
leveraged positions, 4:329, 397; 5:41–44
leveraged returns, 4:329
leveraged transactions, call options vs., 6:91–92
leverage
ratios for credit analysis, 5:612–613
evaluating solvency with, 3:628–631
interpretation of, 3:354
and risk associated with leveraged positions, 5:41–42
Levitt, Arthur, 3:658–659
Lexmark, 5:209
LG Group, 5:313–314
Li, Wei, 4:86n.16
liabilities. see also non-current liabilities
Conceptual Framework on, 3:119
contingent, 5:644
current of Apple Inc., 3:225
deferred revenue analysis, 3:226–228
of SAP Group, 3:225
current tax, 3:551–552
deprecated tax
accounting profit vs. taxable income for, 3:552–555
on balance sheets, 3:241
changes in tax rates, 3:559–560
defined, 3:551
defined, 3:43–44, 212
and financial position, 3:9
income tax bases of, 3:557–559
long-term, 3:240–241
total liabilities-to-equity ratio, 3:413
Lev Abaci (Fibonacci), 1:76
Liberia, 2:429
Libor. see London interbank offered rate
Libya, 2:428
Liechtenstein, 1:229
Liechtenstein Bankers’ Association, 1:229
liens, 5:592, 640
life-cycle stage
of airline industry, 5:227
industry classifications based on, 5:203
in strategic analysis, 5:220
life of contract, pricing/valuation over, 6:76–77
LIFO conformity rule, 3:407
LIFO liquidations, 3:413–417
disclosure of, 3:414–416
example, 3:416–417
on financial statements, 3:414–416
and LIFO reserve, 3:413–414
LIFO method. see last-in, first-out method
LIFO reserve, 3:407–413
converting LIFO to FIFO inventory with, 3:408–413
defined, 3:407
and LIFO liquidations, 3:413–414
Li & Fung, 4:236–239
Light Sweet Crude Oil futures contract, 4:236
Lilly Endowment, 4:245
limited partners (LPs)
defined, 1:265
investors as, 6:158
in private equity, 6:176–177, 184
in real estate, 6:187
limited partnerships, 1:265; 5:18
broker-sponsored, 1:175
master, 5:26; 6:201
real estate, 6:187
limit order book, 5:45–46
limit orders, 1:480–481; 5:44–49
limits, on private placements, 1:183
limit up, 6:19
Lindsay, Don, 3:10–11
linear interpolation, 1:421
linear scale, 1:680, 681
line charts, 1:674–675
line costs, 3:682
line graphs, 3:339
lines of credit
backup, 5:373
committed, 4:216; 5:614
liquidity from, 5:635
overdraft, 4:215
restrictions on, 4:185
for short-term financing, 4:215–217
linked performance
Disclosure (GIPS Section I.4), 1:238
Presentation and Reporting (GIPS Section I.5), 1:239, 240
Real Estate (GIPS Section I.6), 1:242
Wrap Fee/SMA Portfolios (GIPS Section I.8), 1:250
linked time-weighted rates of return, 1:242
linkers. see inflation-linked bonds
links, 1:265
Lintner, John, 4:242, 409
liquid asset requirement, 3:371, 372
liquidating dividends, 4:156
liquidation(s)
absolute priority rule in, 5:479
LIFO, 3:413–417
disclosure of, 3:414–416
example, 3:416–417
on financial statements, 3:414–416
and LIFO reserve, 3:413–414
priority of claims in, 5:595–596
priority of preference shares in,
5:159n.15
private equity, 6:181, 184
reorganizations vs., 4:142, 143
stockholders’ rights in, 5:157
liquidity value, of private equity, 6:184
liquidity, 4:182–190
of alternative investments, 6:203
on balance sheet, 3:15, 215–217
broad measure of, 2:262
in credit analysis, 5:614
from dealers, 5:30
defined, 3:8, 214–215, 246; 4:182–183
of derivatives, 6:41
drags and pulls on, 4:184–185
evaluation of measures, 3:350
of exchange-traded derivatives market,
6:10
external, 5:643
and forward contracts, 5:22
in high-yield credit analysis, 5:634–635
integrated analysis of, 3:360–361
as investor constraint, 4:448–450
as market characteristic, 4:340–341
measuring, 4:185–190, 300
and operating cash flow, 5:635
of OTC derivatives market, 6:12
and portfolio management, 4:248
primarily, 3:183
and returns, 1:424–426
and secondary bond markets, 5:363
secondary sources, 4:183–184
and securitization, 5:471
in sovereign credit analysis, 5:643
and valuation, 6:172
and yield-to-maturity, 5:429
liquidity duration, 5:570
liquidity enhancement, 5:373
liquidity management, 4:183–185
liquidity premium, 4:303
liquidity ratios, 3:347–352
bounds and context of, 3:351–352
calculations, 3:348
in company analysis, 5:231
defined, 3:254, 340, 348
evaluation, 3:350
interpretation, 3:349–350
cash conversion cycle, 3:350
cash ratio, 3:349
current ratio, 3:349
defensive internal ratio, 3:349
quick ratio, 3:349
in working capital management, 4:186
liquidity risk
as financial risk, 4:287–288
with fixed-income securities, 5:570–571
interactions of market and solvency risk with, 4:293
market, 5:589–590
safety measures for, 4:197
solvency risk vs., 4:291n.23
liquidity traps, 2:290
liquid markets
information-motivated trading in, 5:12
raising capital in, 5:9
risk management in, 5:10
secondary, 5:53
Liquidnet, 5:30
List of Composite Descriptions (GIPS Section V.0.1), 1:290–293
Lithuania, 3:113; 5:96
litigation losses, 3:657
litigation risk, 5:604
LLeras, Miguel Palacios, 4:86n.16
Lloyd’s of London, 4:304–305
LME. see long-run marginal cost
LM curve, 2:140–141
LM Ericsson Telephone Company,
3:629–631
load funds, 4:254–255
loan covenants, 3:668
loan loss reserves, allowances for, 3:687
loans
amortizing, 5:483, 504
asset-based, 4:218
auto loan ABS, 5:504–507
bank, 5:347, 348, 371–372
bilateral, 5:371, 372
to borrowers abroad, 2:366
bullet, 5:372
collateralized, 4:216, 217
commercial and industrial, 2:237
leveraged, 6:177–178
margin, 5:41
mortgage, 5:481–486
non-amortizing, 5:504
non-recourse, 5:484
prime, 5:482
recourse, 5:484
residential mortgage, 5:481–486
amortization schedule, 5:483–484
interest rates, 5:482–483
lender’s rights in foreclosures,
5:486–485
maturity, 5:482
prepayment options and penalties, 5:484
stand-alone mortgage, 6:186–187
subprime, 5:482
syndicated, 5:362, 372
taxable/deductible temporary differences, 3:563, 564
and tax bases of liabilities, 3:558, 559
loan-to-value ratio (LTV), 5:482, 500;
6:188
local requirements, for record retention,
1:171
location, measures of, 1:402
Lochhead, Scott, 4:102
lockbox systems, 4:204
locked limit, 6:19
lockout period, 5:504, 507
lockup period, hedge fund, 6:159, 171
logarithmic scale, 1:680, 681
Logitech, 2:336
lognormal distribution, of continuous random variables, 1:549–555
Lombardy region, Italy, 5:646
London interbank offered rate (Libor), 2:422
asset returns vs., 6:165, 196–197
as benchmark for returns, 4:447
coupons, 2:429
defined, 4:216; 6:23n.11
floating-rate debt, 4:82
in forward rate agreements, 6:78
historical returns and volatility, 6:152

Level I Cumulative Index
1-57
London interbank offered rate (Libor) (continued)
interest rate swaps, 5:23–24
and 1-spread, 5:439
marginal cost of capital structure, 4:100–101
performance of, 6:161
as reference rate, 5:350–351, 421
setting, 5:351
swaps based on, 6:23
and TED spread, 6:24
as underlying, 6:37
London School of Economics and Political Science, 6:153
London Stock Exchange
board composition rules, 4:24
and Committee on the Financial
Aspects of Corporate Governance, 4:7
GDRs on, 5:167
information availability, 5:122
in intermarket analysis, 1:718
total market capitalization in, 5:151, 152
long (term), 6:7
long hedge fund strategies, 4:262
long-term contracts, revenue
recognizing, 1:83
recognizing, 1:83
and capital structure, 2:277–78
long-run marginal cost (LMC), 2:30, 98
long sales, clearing instructions on, 5:50
Long-Term Capital Management, 4:293; 6:43
long-term contracts, revenue
recognizing for, 3:158–161
long-term debt
on cash flow statement, 3:289
disclosure of, 3:603–606
and lease disclosure, 3:614–619
presentation of, 3:603–606
long-term financial liabilities, 3:240–241
long-term risk management, 4:34–35
long-term unemployed (term), 2:218
look-ahead bias, 1:599, 600; 3:728
L’Oreal, 1:422
loss(es)
with calls, 6:124, 131
capital, 5:314, 529–531, 565
on commodities, 6:197
in conservative accounting choices, 3:655
deadweight, 2:348, 349
economic, 2:40
expected, 5:589
impairment, 3:495
on income statement, 3:152
litigation, 3:657
on marketable securities, 3:238
maximum, 6:124, 127, 128, 131, 134, 135
net, 3:47
with puts, 6:127, 128, 134, 135
scenario, 4:284
stock-out, 4:208
stop-loss orders, 5:48–49
tax loss carry forward, 3:551
tax-loss selling hypothesis, 5:131
unused tax, 3:565–566
loss aversion, 5:137
loss given default, 5:588
loss severity, 5:588, 589
lot allocations, minimum, 1:112–113
Lotte Group, 3:709
low-cost strategy, for companies, 5:228
lower bound, 1:583
lower Tier 2 securities, 5:592n.4
Lowe’s, 5:208
low liquidity positions, 4:185
low-quality financial reports
conditions conducive to, 3:660
and earnings quality, 3:643, 652
motivations for, 3:659–660
on spectrum of quality, 3:653–654
Loyalty, Prudence, and Care [Standard III(A)], 1:97–105
application of the standard, 1:102–105
compliance procedures, 1:101–102
client approval, 1:101
firm policies, 1:101–102
regular account information, 1:101
guidance, 1:97–101
client’s portfolio, developing,
1:99–100
identifying actual investment client, 1:99
proxy voting policies, 1:100–101
soft commission policies, 1:100
understanding application of
standard, 1:98–99
text of, 1:41, 97
Loyalty [Standard IV(A)], 1:129–139
application of the standard, 1:133–139
compliance procedures, 1:133
competition policy, 1:133
employee classification, 1:133
incident-reporting procedures, 1:133
termination policy, 1:133
guidance, 1:129–133
employer responsibilities, 1:130
independent practice, 1:130
leaving employers, 1:130–131
nature of employment, 1:132–133
social media, 1:132
whistleblowing, 1:132
text of, 1:41–42, 129
loyalty to clients, 1:105
LPs. see limited partners
LRAC. see long-run average cost
LRAC curve. see long-run average total cost curve
LRAS curve. see long-run aggregate supply curve
LS countries. see less strict countries
LTV. see loan-to-value ratio
lump sum
funding annuity with, 1:331–334
future, 1:315–317
future value of, 1:307–308
present value of, 1:315–318
Lund, Susan, 5:346n.1
Luxembourg
customs union, 2:354
employee laws in, 4:19
EU membership, 2:354n.18
exchange rate regime, 2:428
Luxembourg Stock Exchange, 5:167
LVMH Moët Hennessy, 1:422
M
M0 money measure, 2:262
M1 money measure, 2:261, 262
M2 money measure, 2:261, 262
M2 money supply, 2:238, 239
M credit portfolio measure, 4:416–417
M3H money measure, 2:262
M3 money measure, 2:262
M4 money measure, 2:262
Macaulay, Frederick, 5:354
Macaulay duration
calculating, 5:534–538
Maldives, 2:287
Malta, 2:354n.18, 428
Malthus, Thomas, 2:170
managed accounts, 4:261
managed float currency regimes, 2:429, 432
managed futures funds, 6:195
management and book value, 5:172
risk governance by, 4:281
in risk management framework, 4:275–276
management buy-ins (MBIs), 6:177
management buyouts (MBOs), 5:162; 6:177
managerial commentary, 3:26–27, 662
“Management Commentary” (IFRS Practice Statement), 3:649
management discussion and analysis (MD&A), 3:12
“Critical Accounting Estimates,” 3:659
on derecognition, 3:599
in financial statement analysis, 3:26–27
information in, 3:606
inventory management in, 3:431–432
LIFO liquidation in, 3:414
of Microsoft, 3:477
of PACCAR, 3:647–648
policy disclosure requirements, 3:134
as SEC requirement, 3:599n.6
of Volvo Group, 3:431–432
management fees for fund investments, 6:158
for hedge funds, 6:166, 169
for private equity investments, 6:176
management strategy, as company fundamental, 5:609–610
managers financial reporting quality and disclosure by, 3:693
fixation on earnings reports by, 3:693
merger and acquisition orientation of, 3:694
motivations for issuing low-quality reports by, 3:659–660
relations with board, 4:12
selection of, 1:58, 65–66, 160
shareholder relationships, 4:11–12 as stakeholders, 4:9
mandates following, 1:119
managing to, 1:117
notification of change in, 1:166
manipulation, of financial reports, 3:642, 665–666
Mann-Whitney U test, 1:648
manufacturers inventories of, 3:396
new orders of, 2:236
manufacturing resource planning (MRP) systems, 4:209–210
manufacturing sales, 2:237
maple bonds, 5:311
Marathon Oil, 5:209
margin. see also profit margin contribution, 4:127
discount, 5:422–425
for futures, 6:18–19
for hedge funds, 6:170
initial margin requirements, 5:22, 41
maintenance margin requirements, 5:22, 43–44
quoted, 5:422
repo, 5:386
required, 5:422
segment, 3:378–379
variation margin payments, 5:22
marginal cost of capital (MCC), 4:78–79
marginal cost of capital (MCC) schedule, 4:98–101
marginal costs (MC) defined, 2:23
interactions of other costs and output with, 2:31–35
long-run, 2:30, 98
and marginal revenue/profit maximization, 2:30
in monopolies, 2:36–37, 98
in perfectly competitive markets, 2:36–37, 75–76
marginal probabilities, 1:476
marginal product, 2:23
marginal product of labor (MP_L), 2:25–28. see also marginal returns
marginal propensity to consume (MPC), 2:135, 306–308
marginal propensity to save (MPS), 2:135, 307–308
marginal returns, 2:23–28
and definition of productivity, 2:23–25 increasing, 2:23
law of diminishing, 2:23
total and average product of labor, 2:25–28
marginal revenue (MR) and marginal cost/profit maximization, 2:29–30
in monopolies, 2:94–98
in monopolistic competition, 2:81–83
in oligopolies, 2:86, 87, 90, 92
in perfect competition, 2:66, 74–75
and price elasticity, 2:69–70
marginal value curve, 2:71
margin bond, 6:11
margin calls, 5:43; 6:19, 170
margin debt, 1:708–709, 712
margin loans, 5:41
margin stability, 3:723
margin transactions, 6:91–92
Mariscal, Jorge O., 4:97n.34
marketable limit orders, 5:45
marketable securities, 3:219, 237–239
market anomalies, 5:129–136
and closed-end investment fund discounts, 5:133–134
cross-sectional, 5:133
and earnings surprises, 5:134–135
for initial public offerings, 5:135
investment strategies using, 5:136
and predictability of returns, 5:135–136
time-series, 5:130–132
market-based valuation, 3:714–719
market bid–ask spread, 5:44
market capitalization of equity markets, 5:150–152
style indices based on, 5:97
total, 5:89
market-capitalization weighting, of indices, 5:87–90
market characteristics of assets, 4:340–341
market concentration, 2:101–102
market cycles, 1:714–715
decennial pattern, 1:715
18-year cycle, 1:714
Kondratieff Wave, 1:714
presidential cycle, 1:715
market demand function, 2:16
market discount rate
bond price and, 5:403–407
calculating, 5:398–402
market efficiency, 5:115–146
and active manager selection, 5:116
anomalies, 5:129–136
and closed-end investment fund discounts, 5:133–134
cross-sectional, 5:133
and earnings surprises, 5:134–135
for initial public offerings, 5:135
investment strategies using, 5:136
and predictability of returns, 5:135–136
time-series, 5:130–132
and arbitrage opportunities, 6:50, 165
in behavioral finance, 5:136–139
contributing factors, 5:120–123
do derivatives market, 6:42
description of efficient market, 5:117–119
forms of, 5:124–129
and market vs. intrinsic value, 5:119–120
and portfolio management, 5:129
practice problems, 5:142–144
semi-strong-form efficient markets, 5:125–128
solutions to problems, 5:145–146
strong-form efficient markets, 5:128
and transaction/information-acquisition costs, 5:123–124
weak-form efficient markets, 5:125
market float, securities, 5:878
market functions, in FX markets, 2:398–404
market index, for beta, 4:91
market indicators, 1:713
market information systems, 5:58
market liquidity risk, 5:589–590
market making, 1:87; 6:10–11
Market Manipulation [Standard II(B)], 1:92–97
application of the standard, 1:93–97
guidance, 1:92–93
information-based manipulation, 1:92
transaction-based manipulation, 1:93
text of, 1:41, 92
market model, 4:90n.24, 404–407
market multiple models, 5:246. see also multiplier models for equity valuation
market neutral strategies, for hedge funds, 6:164
market-on-close orders, 5:48
market or comparables valuation approach, for private equity, 6:183
market orders, 5:44, 45, 47–48
market-oriented investors, 3:728
market participants
fair treatment of, 5:122
and market efficiency, 5:120–122
and technical analysis, 1:670–672
market portfolio, in CAPM, 4:426
market power, 2:93, 101
market price
and estimated value, 5:244–246
of risk, 4:347
market rate(s)
for bonds payable, 3:596–597
of interest, 3:589
market risk, 4:197, 287, 293
markets, 5:5–76. see also fixed-income market
assets in, 5:14–20
and classification of markets, 5:14–16
and currencies, 5:19–20
real assets, 5:26–28
securities, 5:16–19
bear, 5:586–560, 715
benefits of securitization for, 4:470–472
brokered, 5:55, 57
bull, 1:558–560, 716–718
call, 5:54
capital, 5:13–15
analyzing developments in, 2:375
and benefit of ethics to society, 1:36
functions of, 2:398–399
money markets vs., 5:15
primary, 5:13–15
regulation of, 3:111
sustainability of, 1:36–37
CAPM assumptions about, 4:410
cash, 6:5
central bank funds, 5:383
commodities in, 5:25–26
common, 2:354–358
corporation, 5:58
continuous trading, 5:54, 56–57
contracts for difference, 5:20–21
execution mechanisms, 5:54–57
forwards, 5:21–22
futures, 5:22–23
insurance contracts, 5:25
market information systems, 5:58
options, 5:24–25
swaps, 5:23–24
trading sessions on, 5:54
debt, 5:347–348, 588
defined, 4:393
derivatives, 6:9–14, 38–39
duopoly, 2:86–89
in economy, 2:124
efficient arbitrage opportunities in, 6:50, 165
derivatives market as, 6:42
description of, 5:117–119
intrinsic value in, 5:119–120
semi-strong-form, 5:125–128
strong-form, 5:128
weak-form, 5:125
emerging bonds in, 5:353
capitalization level and contributions to global GDP, 5:151
fixed-income securities for, 6:172
hedge funds in, 4:262
securitization in, 5:471
sovereign debt of, 5:642
technical analysis for, 5:125
World Bank definition of, 5:642n.42
equity efficiency, 6:42
global, 5:347–348
hedge fund strategies with neutrality, 4:262
and OTC derivatives market, 6:9–10
and ethics, 1:15–17
Eurocommercial paper, 5:374–375
factor, 2:124
financial, 2:124
and financial analyst decisions, 5:6
financial intermediaries, 5:28–38
arbitrageurs, 5:34–36
brokers, exchanges, and alternative trading systems, 5:28–30
dealers, 5:30–31, 34–36
depository institutions and financial corporations, 5:32–33
insurance companies, 5:33–34
securitizers, 5:31–32
for settlement and custodial services, 5:36–37
transactions facilitated by, 5:38
foreign exchange, 2:391–410
about, 2:391–392
currency conventions, 2:393–394
functions, 2:398–404
nominal vs. real exchange rates, 2:394–398
participants in, 2:404–407
size and composition of, 2:407–410
forward, 5:433
fractionless, 4:410
and functions of financial system, 5:6–14
capital allocation efficiency, 5:13–14
determining rates of return, 5:12–13
for individuals, 5:7–12
of futures, 6:21
geographic limitations of, 2:60
global debt, 5:347–348
global equity, 5:347–348
global finance
and depository receipts, 5:166–169
direct investing, 5:165–166
equity securities in, 5:150–155
integration and growth in, 5:164–165
goods, 2:124
inefficient, 5:119
informationally efficient, 4:392
interbank, 5:350, 383–384
labor, 2:214
liquid
exchanging assets for immediate delivery in, 5:10
information-motivated trading in, 5:12
raising capital in, 5:9
risk management in, 5:10
secondary, 5:53
making, 5:45, 46, 627
money, 1:373; 2:140–141; 5:15, 17
orders in, 5:44–50
over-the-counter, 2:360; 5:55, 168, 356, 363
positions in, 5:38–44
practice problems, 5:66–72
primary bond, 5:357–363
capital, 5:13–14
securities, 5:14–15, 50–53
quote-driven, 5:54, 55, 57, 98
rationality of individuals vs., 5:137
regulation of, 5:60–63
secondary bond, 5:357, 362–365
security, 5:15, 50, 53–58
solutions to problems, 5:73–76
spot, 5:10, 15, 25, 26; 6:5
sustainable securitization, 5:472
taking, 5:46
target, for security indices, 5:82–83
traditional investment, 5:15
US commercial paper, 5:374–375
in well-functioning financial systems, 5:58–60
yield spread and performance of, 5:627
market segmentation, 6:155–156
market sentiment, 5:93
indicators of, 1:707–710
and technical analysis, 1:670–671
market share
and industry concentration, 5:208–209
stability of, 5:212–213, 220
Markets in Financial Instruments Directive (MiFID), 4:440
market structures, 2:59–111
analysis of, 2:60–64
determining factors for, 2:62–64
identification of, 2:101–104
importance of, 2:59–60
monopolistic competition, 2:79–83
demand analysis, 2:80–81
long-run equilibrium, 2:82–83
optimal price and output, 2:81
supply analysis, 2:81
monopoly, 2:93–101
about, 2:93–94
demand analysis, 2:94–95
long-run equilibrium, 2:100–101
optimal price and output, 2:97–98
price discrimination and consumer surplus, 2:98–100
supply analysis, 2:95–96
oligopoly, 2:83–92
demand analysis and pricing strategies, 2:84–90
long-run equilibrium, 2:92
optimal price and output, 2:91–92
supply analysis, 2:90–91
perfect competition, 2:64–79
demand analysis, 2:65–72
long-run equilibrium, 2:77–78
optimal price and output, 2:73–77
supply analysis, 2:72–73
practice problems, 2:106–109
solutions to problems, 2:110–111
types of, 2:60–62
Market Technicians Association, 1:673
market timing, 1:558–560
market-to-book ratio, 5:175
market value
and asset-based valuation, 5:274; 6:184
and book value, 5:172
of debt, 5:272–273
defined, 1:265
of derivatives, 6:38–39
GIPS Valuation Principles (GIPS Section II), 1:250
Input Data (GIPS Section 1.1), 1:233n.2
intrinsic vs., 5:119–120
Real Estate (GIPS Section 1.6), 1:241n.6
total, 5:175
market value to book value (MV/BV) ratio, 3:37–378
Market Vane Bullish Consensus, 1:707
Market Vectors Vietnam ETF, 5:95
marking to market, 5:119–49
Markit iBoxx, 5:98
Markit iBoxx Euro High-Yield Bond Indices, 5:104
Markowitz, Harry, 1:427; 4:241, 409
Markowitz efficient frontier, 4:365,
393–394
Marsh, Paul, 4:86
Marshall-Lerner condition, 2:437–441
Mars/Wrigley, 2:110–111
material adverse change provisions, 1:29
material nonpublic information
defined, 1:27
of debt, 1:14–15, 50–53
and book value, 1:14–15, 50–53
and asset-based valuation, 1:357, 362–365
social media, 1:83
directive (MiFID), 5:58–60
of corporate notes/bonds, 5:375–376
of fixed-income securities, 5:298
of forward contracts, 2:418n.5
and forward points, 2:421–422
legal, 5:490–491
of residential mortgage loans, 5:482
weighted average, 5:487–490
maturity effect, 5:404, 405
maturity premium, 1:303
maturity structure of interest rates, 5:429–437
maturity value, see par value
Mauritius, 3:115; 5:96
maximum loss
with calls, 6:124, 131
with puts, 6:127, 128, 134, 135
maximum profit
for calls, 6:124, 130, 131
for puts, 6:127, 128, 133
MBIs, see management buy-ins
MBOs, see management buyouts
MBBs, see mortgage-backed securities
MC, see marginal costs
MCC, see marginal cost of capital
MCC schedule, see marginal cost of capital schedule
MD&A, see management discussion and analysis
MDURATION functional function, 5:538n.4
mean(s)
archimetic, 1:402–406
and coefficient of variation, 1:439–440
cross-sectional mean, 1:403–405
defined, 1:396n.9, 402
and median, 1:408–409
population mean, 1:402–403
properties, 1:405–406
sample mean, 1:403–405
using, 1:454–455
and weighted mean, 1:413n.19
of binomial random variables, 1:535
cross-sectional, 1:403–405
geometric, 1:415–419
and arithmetic mean, 1:416–419
formula, 1:415–416
using, 1:454–455
harmonic, 1:419–420
hypothesis testing with, 1:626–642
tests with mean differences, 1:633–642
tests with single mean, 1:626–633
mean(s) (continued) of lognormal distribution, 1:551, 554–555
of normal distribution, 1:541, 544
population, 1:402–403
estimates of, 1:585–595
test statistic for single, 1:627–630
sample, 1:403–405, 582n.4
distribution of, 1:582–585
as point estimator, 1:585, 587
standard error of, 1:582–583
of standard normal distribution, 1:542
trimmed, 1:406n.14
weighted, 1:412–415
Winsorized, 1:406n.14
mean absolute deviation (MAD), 1:427–429
mean differences, 1:633–642
in tests with dependent samples, 1:638–642
in tests with independent samples, 1:633–638
mean returns on S&P 500, 1:634–635
recovery rates on defaulted bonds, 1:636–638
mean return(s)
excess, 1:442
geometric, 1:416–419; 4:320–321
historical, 4:333–334
on S&P 500, 1:634–635
mean–variance analysis, 1:494n.10, 547
measurement scales, 1:388–389
measures of central tendency, 1:402–420
arithmetic mean, 1:402–406
and coefficient of variation, 1:439–440
cross-sectional mean, 1:403–405
defined, 1:402
and median, 1:408–409
population mean, 1:402–403
properties, 1:405–406
sample mean, 1:403–405
using, 1:454–455
and weighted mean, 1:413n.19
geometric mean, 1:415–419
and arithmetic mean, 1:416–419
formula, 1:415–416
using, 1:454–455
harmonic mean, 1:419–420
median, 1:407–409
and arithmetic mean, 1:408–409
defined, 1:407
mode, 1:410–411
weighted mean, 1:412–415
measures of location, 1:402
measuring implication, triangle pattern’s, 1:695–696
media
and governance, 4:27
retention of information on, 1:171
median, 1:407–409
Medical Equipment Trust (MET), 5:473–474, 477–479
medical industry, governmental influences on, 5:225
Mediquip, 5:472–474, 478–479
Medium Term Financial Strategy Rate (MTFS), 2:268
medium-term notes (MTNs), 5:376
Medtronic, 5:213
members
CFA (see Responsibilities as a CFA Institute Member or CFA Candidate [Standard of Professional Conduct VII])
exchange, 6:10n.4
Membership Agreement, 1:47
membership status, CFA Institute, 1:195, 199
mental accounting, 5:138
menu costs, 2:215–216, 274
Mercedes, 2:82; 5:218
merchandise trade sub-account, BOP, 2:363
merger and divestiture companies, inventories of, 3:396
Merck & Co., 5:209, 219–221
MERCOSUR, see Southern Cone Common Market
Mercurio, V., 4:104n.43
merger and acquisition orientation,
merger and acquisition strategy, for hedge funds, 6:162
mergers, market concentration and,

2:101–102
mesokurtic, 1:450
MET, see Medical Equipment Trust
MetaCarta, 3:651
method of comparables
and multiplier models for equity valuation, 5:267–270
price multiples in, 5:264
Metropolitan Life Insurance Company, 4:251
Mexico Comisión Nacional Bancaria y de Valores, 5:29
Mexicó
accounting standards and ROE comparisons, 3:710–712
business investment, 2:173
consumption expenditures, 2:135
economic growth in, 2:178
effect of global recession, 2:162
exchange rate regime, 2:429
floating-rate bonds, 5:367
government spending, 2:125
IFRS adoption, 3:113
inflation-linked bonds, 5:324
inflation targeting, 2:279
labor productivity, 2:177
labor supply, 2:172
MSCI multi-market index, 5:96
NAFTA, 2:354, 356–357
NAICS system, 5:197
trade balance with US, 2:127
underground economy, 2:120
mezzanine bond classes, 5:509
mezzanine financing, for leveraged buyouts, 6:178
mezzanine-stage financing (mezzanine venture capital), 6:179
mezzanine tranche, 6:34
Mian, Shehzad L., 4:201n.5
Mibor. see Mumbai interbank offered rate
Michelin Group, 5:68, 74
microeconomics, defined, 2:5
demand and supply analysis in, 2:5–6
macroeconomics vs., 2:114
Mikronesia, 1:229
Micron Technology, Inc., 3:570–575
consolidated balance sheet, 3:571–572
consolidated statement of operations, 3:570–571
notes to consolidated financial statement, 3:572–573
Microsoft Corporation, 2:94; 3:477;
4:154
Microsoft Excel, 1:625n.14
Microsoft Word, 2:94
Middle East, see also specific countries
debt and equity outstanding, 5:348
foreign exchange reserves, 2:406
and IFRS, 3:114
industrial comparative ration analysis, 5:613
institutionally-owned real estate, 6:185
natural resources, 2:174
terms of trade, 2:330
trade-to-GDP ratio, 2:332
mid-swaps (term), 5:438
MiFID, see Markets in Financial Instruments Directive
migration, credit ratings, 5:602–603
Mikuni & Co., 5:598
Miles, James A., 4:79n.3
Miller, Merton, 4:92n.28
minimalist disclosure approach, 3:693
minimum cash balances, 4:191
minimum efficient returns to scale, 2:46
minimum lot allocations, 1:112–113
minimum prices
of American options, 6:105–106
of European options, 6:91–93
minimum required rate of return, 5:177
minimum-variance frontier, 4:364
minimum-variance portfolios, 4:363–365
minority equity investing, 6:180
minority interests, 3:17, 243
minority (non-controlling) shareholders, 4:9, 12, 16
Minsky, Hyman, 2:212
Minsky moment, 2:212
Misconduct [Standard I(D)], 1:77–80
application of the standard, 1:78–80
compliance procedures, 1:78
guidance, 1:77–78
text of, 1:40; 77
misclassifying strategies, 4:197–198
misrepresentation avoiding, 1:76
of financial data, 3:74
of information, 1:75
potential, 1:73
Misrepresentation [Standard I(C)], 1:67–77
application of the standard, 1:72–77
compliance procedures, 1:70–71
factual presentations, 1:70–71
maintaining webpages, 1:71
plagiarism policy, 1:71
qualification summary, 1:71
verifying outside information, 1:71
National Association of Real Estate Investment Trusts
NAREIT Global composite, 6:191
NARU. see natural rate of unemployment
NASDAQ, see National Association of Securities Dealers Automated Quotations
NASDAQ 100 Trust Shares, 6:190
NASDAQ OMX, 5:151, 152
NASDAQ 100 Index, 6:10
NASSCOM, 2:346n.11
National Association of Pension Funds, 1:229
National Association of Real Estate Investment Trusts (NAREIT), 5:102; 6:190
National Association of Securities Dealers Automated Quotations (NASDAQ), 5:151n.4
American depositary shares, 5:168
Arms index, 1:711–712
correlations of stocks, 4:358
delisted companies, 1:599
minimum share price listing, 4:159
performance of UEC and, 5:93
National Bureau of Economic Research (NBER), 1:672; 2:199, 236
National Bureau of Statistics of China, 2:117
National Council of Real Estate Investment Fiduciaries (NCREIF), 6:190
National debt, 2:299–301. see also government debt
National Highways Authority of India (NHAI), 5:353
national income, 2:129, 369
National Income and Product Accounts (NIPA), 2:116
nationalization, of monopolies, 2:100
National League of Management Companies, 1:229
national tax-free bond mutual funds, 4:257
national welfare, 2:349, 352
National Welfare Fund, 4:247
natural level of output, 2:146
natural monopolies, 2:93–94, 100
natural rate of unemployment (NARU), 2:146, 230
natural resources, 2:156, 157, 174. see also raw materials
nature of employment, 1:132–133
nature of expense method, 3:500–501
NAV. see net asset value
Navistar, 5:189
NAVTEQ, 3:651
Nayar, Nandkumar, 1:632
NBC, 4:305n.36
NBER. see National Bureau of Economic Research
NCREIF. see National Council of Real Estate Investment Fiduciaries
NCREIF Farmland index, 6:190
NCREIF Property index, 6:190
NDFs. see nondeliverable forwards
negative correlation, 4:351
negative covenants, 3:601; 5:308–309, 622
negative pledges, 5:308
negative screening, 4:38
negotiable CDs, 5:384
Neiman Marcus Group, Inc., 1:411
Neo-Keynesians, 2:215
Nestlé Group, 3:664, 717–719
Nestlé SA
in hedge funds, 6:170
justified forward P/E of, 5:265–267
strategic analysis, 5:219–221
subsidiary of, 5:159
net asset flows, for assets under management, 6:159–160
net asset value (NAV)
breaking the buck, 4:257
closed-end investment fund, 5:134
and drawdown, 6:170–171–724
mutual fund, 4:252–253
of REITs, 6:192
trading vs. reporting, 6:172
net book value, 3:177
net cash flow, 3:268, 375
net client inflows, estimating, 1:593–595
net coupon pass-through rate, 5:487
net debt, 5:612
net exports, 2:136, 330
Netherlands
banking supervision, 2:271
bonds outstanding, 5:352, 358
"comply or explain" codes, 4:34
customs union, 2:354
domestic and international debt securities, 5:313
equity risk premiums, 4:87
EU membership, 2:354n.18
exchange rate regime, 2:428
fact finding requirements, 4:453
frequency of capital budgeting, 4:63
GIPS country sponsor, 1:229
IFRS adoption, 3:113
imports in, 2:329
in MSCI multi-market index, 5:96
Residential mortgage loans, 5:482–484
returns
on bonds, bills, and equities, 5:153
real equity returns, 1:397
total returns, 1:404, 408
say on pay, 4:18
sovereign bonds, 5:366
two-tier boards, 4:10
Netherlands Antilles, 2:286
Netherlands Beroepenvereniging van Beleggingsprofessionals, 1:229
net income
and asset revaluations, 3:491–492
net cash flow and, 3:691
coefficient of variation for, 3:372
defined, 3:47, 152
and direct method for overall statement of cash flows, 3:289–290
and financial reporting issues, 3:691
on income statement, 3:152
and indirect method for overall statement of cash flows, 3:290–293
per employee, 3:372
in ROE, 5:172–174
net interest margin, 3:372
net interest pass-through rate, 5:487
net investment, 2:135–136
net loss, 3:47
net-of-fees returns
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:265
Disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
for hedge funds, 6:160–161, 168
Presentation and Reporting (GIPS Section I.5), 1:239
Private Equity (GIPS Section I.7), 1:245, 246
Real Estate (GIPS Section I.6), 1:242, 244
net-of-fees SI-IRR, 1:243, 247
net operating cycle, 4:189–190
net operating income (NOI), 5:500; 6:191–192
net operating tax loss carryforwards (NOLs), 3:574n.5
net present value (NPV), 4:54–59
in capital-budgeting decisions, 4:79
defined, 4:48–49
and IRR, 4:49–50
and net present value rule, 1:358–360
NPV profile, 4:54–56
ranking conflicts between IRR and, 4:56–59
and stock prices, 4:63–64
net profit margin, 3:356, 357
calculation of, 3:326
and conversion from LIFO to FIFO, 3:413
defined, 3:357
and income statement ratios, 3:197
and inventory write-downs, 3:425
in ratio analysis, 3:325
net realisable value (NRV), 3:221–222, 418
net reporting of revenues, 3:163–164
net return, 4:327–328
Netscape, 2:94
net tax rate, 2:306
network effects, in monopolies, 2:94
net working capital, in credit analysis, 5:614
neutrality, in financial reporting, 3:655
neutral rate of interest, 2:288
new accounts, temporary, 1:235, 268
New Century Financial, 3:653
new classical macroeconomics, 2:213
New Classical school of economic thought, 2:213–217
new classical macroeconomics, 2:213
and indirect method for overall statement of cash flows, 3:290–293
per employee, 3:372
in ROE, 5:172–174
net interest margin, 3:372
net interest pass-through rate, 5:487
net investment, 2:135–136
net loss, 3:47
net-of-fees returns
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:265
Disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
for hedge funds, 6:160–161, 168
Presentation and Reporting (GIPS Section I.5), 1:239
Private Equity (GIPS Section I.7), 1:245, 246
Real Estate (GIPS Section I.6), 1:242, 244
net-of-fees SI-IRR, 1:243, 247
net operating cycle, 4:189–190
net operating income (NOI), 5:500; 6:191–192
net operating tax loss carryforwards (NOLs), 3:574n.5
net present value (NPV), 4:54–59
in capital-budgeting decisions, 4:79
defined, 4:48–49
and IRR, 4:49–50
and net present value rule, 1:358–360
NPV profile, 4:54–56
ranking conflicts between IRR and, 4:56–59
and stock prices, 4:63–64
net profit margin, 3:356, 357
calculation of, 3:326
and conversion from LIFO to FIFO, 3:413
defined, 3:357
and income statement ratios, 3:197
and inventory write-downs, 3:425
in ratio analysis, 3:325
net realisable value (NRV), 3:221–222, 418
net reporting of revenues, 3:163–164
net return, 4:327–328
Netscape, 2:94
net tax rate, 2:306
network effects, in monopolies, 2:94
net working capital, in credit analysis, 5:614
neutrality, in financial reporting, 3:655
neutral rate of interest, 2:288
new accounts, temporary, 1:235, 268
New Century Financial, 3:653
new classical macroeconomics, 2:213
New Classical school of economic thought, 2:213–217
defined, 3:47, 152
minimum-variance portfolios, 4:363–365
portfolio selection example, 6:121–123
risk-free assets, 4:365–368
and investment characteristics of assets, 4:318–341
distributional characteristics, 4:338–340
market characteristics, 4:340–341
return characteristics, 4:318–333
as investor objective, 4:317–318
for investor with heterogeneous beliefs, 4:424–425
optimal risky portfolio, 4:387–388
and portfolio risk, 4:350–361
diversification of risk, 4:356–361
portfolio with many risky assets, 4:355–356
portfolio with two risky assets, 4:350–355
practice problems, 4:376–382, 430–435
pricing of risk, 4:400–402
and risk aversion, 4:341–350
concepts, 4:341–342
indifference curves, 4:343–345
utility theory, 4:342–350
solutions to problems, 4:383–386, 436–438
optimal price
in monopolies, 2:97–98
in monopolistic competition, 2:81
in oligopolies, 2:91–92
in perfect competition, 2:73–77
optimal risky portfolio
and capital market line, 4:394
and homogeneity of expectations, 4:391–392
portfolio selection for, 4:387–388
option-adjusted price, 5:421
option-adjusted spread (OAS), 4:82n.10, 84n.13
option-adjusted yield, 5:421
optionlike features, debt with, 4:82
option premium (option price), 5:24
6:26
options (options contracts), 5:327;
6:25–30, 33. see also specific types,
e.g.: call options
binomial valuation of, 6:100–104
in contract markets, 5:24–25
dealers of, 5:35
defined, 6:7, 25, 61
forward commitments vs., 6:30
forwards vs., 5:25; 6:119
futures vs., 6:119
in FX market, 2:402
implied volatility with, 6:41
long and short sides of, 5:39
notation for, 6:120
pricing, 6:85–100, 104–107
American options, 6:104–107
European options, 6:85–100
volatility in pricing models, 1:553–554
risk shifting with, 4:306–307
on stocks, 6:36
underlying risk exposures of, 5:39
options strategies for equity portfolios, 6:119–143
buying or short selling stock,
with long and short positions,
6:123–129
calls, 6:123–126
puts, 6:126–129
and notation for options, 6:120
and options vs. forwards and futures, 6:119
practice problems, 6:138–140
for risk management, 6:130–136
covered calls, 6:130–133
protective puts, 6:134–136
solutions to problems, 6:141–143
option writers, 5:24
Oracle Corporation, 4:172
Orange County, California, 6:44
order-driven markets, 5:54–57
ordering costs, 4:210
Order Machine, 5:30
order matching rules, 5:55
order precedence hierarchy, 5:55
orders, 5:44–50
clearing instructions for, 5:44, 49–50
execution instructions for, 5:44–48
size/ frequency of, 2:89
validity instructions for, 5:44, 48–49
ordinal scales, 1:388
ordinary annuities, 1:312
and annuity due, 1:320–321
with equal cash flows, 1:313–314
present value of, 1:319, 325
projected present value of, 1:321–323
ordinary shares, 3:186; 4:152
ordinary terms, 4:202–203
Organisation for Economic Co-operation and Development (OECD)
capacity utilization, 2:149
corporate governance guidelines by, 4:7
cyclically adjusted budget deficit, 2:309
economic indicators, 2:235
GDP reported by, 2:116
government liabilities/debt for, 2:300
government revenues/expenditures by, 2:295, 296
institutional investors in OECD countries, 4:242–243
net borrowing/lending by, 2:297
spillover effects for, 2:356
trade-to-GDP ratio, 2:332, 333
organizational infrastructure, 4:14
Organization for the Harmonization of Business Law, 3:115
Organization of Petroleum Exporting Countries (OPEC), 2:84, 89
organized exchanges, 5:363
Oriental Brewery, 3:717
original issue discount tax provision, 5:315
orthopedic device industry, market share stability in, 5:212–213
Osborne, George, 2:371
oscillators. see momentum oscillators
Österreichische Vereinigung für Finanzanalyse und Asset Management, 1:228
OTC markets. see over-the-counter markets
other comprehensive income (OCI) accumulated, 3:242–243
defined, 3:47n.4, 199
on income statements, 3:201–202
on statement of comprehensive income, 3:19–20
other current assets, on balance sheets, 3:223–224
other operating expenses, 3:286
other receivables, 3:46
outcomes, of random variables, 1:472
outflows, 1:360
out-of-date information, 1:76–77
out-of-sample tests, 1:596
out of the money, 6:27, 87
output aggregate, 2:115–132
in economy, 2:115–116
in gross domestic product, 2:116–132
and costs, 2:31–35
full employment/natural level, 2:146
optimal in monopolies, 2:97–98
in monopolistic competition, 2:81
in oligopolies, 2:91–92
in perfect competition, 2:73–77
recessionary gap in, 2:201
value of final output method for GDP, 2:117–118, 128
outside compensation, 1:141
outside information, verifying, 1:71
outside organizations, referral arrangements with, 1:188
outside parties, referral arrangements and, 1:186–188
outsourcing, 2:334
overall payroll employment, 2:220
overall statement of cash flows, 3:289–294
direct method, 3:289–290
adjustments to net income, 3:289–290
comparing indirect and, 3:293–294
defined, 3:23, 270
indirect method, 3:290–293
adjustments to net income, 3:290–293
converting direct and, 3:293–294
defined, 3:23, 270–271
overbought conditions, 1:700
overcapacity, 5:208
overcollateralization, 5:307
overconfidence, 5:137
overconfidence bias, 1:11–12
overdraft lines of credit, 4:215
overinvestment, in inventory, 4:208–209
overnight indexed swaps, 6:24
overnight repo, 5:385
overreaction anomalies, 5:132
oversold conditions, 1:700
over-the-counter (OTC) markets. see also quote-driven markets
American depositary receipts in, 5:168
for derivatives, 6:11–14
equities market vs., 6:9–10
exchange-traded vs., 6:13–14
size of, 6:38–39
execution of trades in, 5:55
for fixed-income securities, 5:356, 363
as secondary market, 5:363
settlement in, 2:400
overvalued (term), 5:244
Owens Corning Corporation, 4:142–143, 235–236
owner-of-record date, 4:160
owners’ equity, see also equity
accounting equation, 3:46–47
defined, 3:12, 44, 212
in residential properties, 6:187
statement of, 3:68
ownership
beneficial, 1:182, 183
and business risk, 4:141–143
of completed prior work, 1:135
of firm’s records, 1:171, 172
of real estate, 6:186–187
stock, 1:175–177
and voting rights, 4:31–32
own price (term), 2:7
own-price elasticity of demand, 2:9–14
calculating, 2:9–11
defined, 2:9
extremes of, 2:11–12
predicting, 2:12–13
and total expenditure, 2:13–14

P
Paasche index, 2:225
PACCAR, 3:646–648; 5:189
PAC tranches. see planned amortization
class tranches
paid-in capital, 2:247, 265
paired comparisons test, 1:638
paired observations, 1:638
paired transactions, in BOP system,
2:366–368
pairs arbitrage trade, 1:476
Pakistan
GDP vs. GNP, 2:329
GIPS country sponsor, 1:229
IFRS adoption, 3:114
MSCI multi-market index, 5:96
Panama, 2:428, 429; 3:114
panda bonds, 5:311
panel data, 1:581n.3
Pan-European Aggregate Bond Index,
5:355
Papaconstantinou, George, 2:379
Paraguay, 2:354; 3:114
parallel shift, 5:552
parameters, 1:387, 576. see also specific parameters
parametric tests, 1:647–648, 651–652
par value, 5:432–433
capital companies, on income
statements, 3:17
pari passu ranking, 5:593, 640
parity value, 5:331
Parmalat, 3:653; 5:604
partial duration, 5:545
partial fills, 1:109
partially amortized bonds, 5:316–318
partially amortizing loans, 5:483
participating preference shares, 5:160
participation instruments, 5:380–381
participation ratio, 2:218
partnerships
limited, 1:265; 5:18
broker-sponsored limited
partnerships, 1:175
master limited partnerships, 5:26;
6:201
real estate, 6:187
private energy, 6:196
par value
of fixed-income securities, 5:298
and market discount rate, 5:399–402
of owners’ equity, 3:242
passing exams in consecutive years,
1:198–199
passive crawling peg currency regime,
2:431
passive investment strategies, 5:117
passive management, 5:129; 6:155
passive portfolios, 4:392
passive strategies
borrowing, 4:217–218
short-term investing, 4:197
pass-through rate, 5:487
pass-through securities, on investment
pools, 5:32
patents, 2:93
path dependence, 5:218n.14
payable date, 4:161
payables
accounts payable
in accrual accounting, 3:70–71
as current liability, 3:226
bonds payable, 3:588–606
and amortization of bonds, 3:592–596
debt covenants, 3:601–603
derecognition of debt, 3:599–601
disclosure of long-term debt,
3:603–606
fair value reporting, 3:596–599
and interest expense, 3:592–596
and interest payments, 3:592–596
and issuance of bonds, 3:588–592
presentation of long-term debt,
3:603–606
income tax payable, 3:224, 227, 551
notes payable, 3:226
number of days of payables, 3:341, 345
payables turnover, 3:341, 345
payback period
capital budgeting, 4:50–52
discounted, 4:52–53
drawbacks of, 4:51–52
payback period
capital budgeting, 4:50–52
discounted, 4:52–53
drawbacks of, 4:51–52
payment chronology for dividends,
4:160–163
capitalizing on, 4:162–163
declaration date, 4:160
ex-dividend date, 4:160–162
holder of record date, 4:160–161
interval between dates, 4:161–163
NYSE Euronext time line, 4:161–162
payment date, 4:161
payment date, dividend, 4:161–162
payment-in-kind (PIK) coupon bonds,
5:323, 376
payments. see also balance of payments
(BOP) system
central banks in payments system,
2:271
fixed-rate mortgage, 1:330–331
forms of, 2:115
interest, 3:592–596
as pull on liquidity, 4:184
receivable, 1:629–630
transfer, 2:125, 302–303
on underlying assets, 6:90–91
payments-in-lieu of dividends, 5:40
payoffs
from call options, 6:26–28
with contingent claims, 6:25
from forward contracts, 6:15–16
with futures, 6:20–21
from put options, 6:28–30
payout, 4:152
payout policy, dividend, 4:152
payout ratio, 4:155, 58n.8; 5:264–267
pay-to-play scandals, 1:58
P/B. see price-to-book ratio
PCAOB. see Public Company
Accounting Oversight Board
PCE. see personal consumption
expenditures
PCE index, 2:225
P/CF. see price-to-cash-flow ratio
PCP. see Professional Conduct Program
PDL. see personal disposable income
P/E. see price-to-earnings ratio
peak phase (business cycle), 2:196–199, 203
Pearson coefficient of skewness,
1:447n.42
peer comparison ratios, 3:726
peer groups, 5:197–202
penal sum, 5:307
penalties, prepayment, 5:484
pennant patterns, 1:696–697
pension funds
enterprise risk management for, 4:280
investment restrictions for, 4:451–452
regulation of, 5:62
pension plans
defined-benefit
accounting for, 3:624
defined, 3:625
effective duration in, 5:542–543
as investment clients, 4:243
Monte Carlo simulations for, 1:555
defined-contribution, 3:624–625; 4:242
disclosure of, 3:626–627
as non-current liabilities, 3:624–627
Pensions Act (1995), 4:440
Pensions Regulator, 4:441
pension trust fund, 3:625
Pentax Imaging Company, 2:223
People’s Bank of China, 5:471
PEPL. see Thomson Reuters US Private
Equity Performance Index
PepsiCo, Inc., 3:696–697
per capita real GDP, 2:120
percentage-of-completion method of
revenue recognition, 3:158–160, 168
%D (stochastic oscillator), 1:704–705
percentiles, 1:420–424
%K (stochastic oscillator), 1:704, 705
perfect competition, 2:64–79
break-even point in, 2:38–39
characteristics of, 2:63
defined, 2:61
demand, average, and marginal costs
under, 2:36–37
demand analysis, 2:65–72
and CAPM, 4:422–425
implementing investment strategy, 4:465–469
organizing principles for, 4:469–470
and portfolio management, 4:249–251
strategic asset allocation, 4:457–465
for European charity, 4:467–469
objective of, 4:460–461
for private investor, 4:464–465
specifying asset classes for, 4:458–459
portfolio demand for money, 2:263
portfolio management, 4:233–267
active
information-motivated trading in, 5:10
manager performance, 5:129
manager selection, 5:116
security market indices in, 5:94
with fixed-income securities, 5:296
investing in portfolios vs. single
equities, 4:233–234
diversification, 4:234–236
downside risk, 4:239–241
and modern portfolio theory, 4:241–242
and portfolio composition, 4:238–239
and risk–return tradeoff, 4:236–238
lending, 4:396
leverage, 4:396–400
market, 4:426
minimum-variance, 4:363–365
model, 5:94–95
MSPs, 1:249
optimal (see optimal portfolio)
passive, 4:392
policy, 4:442
Presentation and Reporting (GIPS
Section I.5), 1:239
probabilities for common stock, 1:546
Real Estate (GIPS Section I.6), 1:241,
243, 244
risk
insurance for, 4:361
optimal risky portfolio, 4:387–388,
391–392, 394
suitability of investment for, 1:118–119
two-asset, 4:332–333
Verification (GIPS Section IV),
1:257–259
wrap fee/SMA (see Wrap Fee/SMA
Portfolios [GIPS Section I.8])
Wrap Fee/SMA Portfolios (GIPS
Section I.8), 1:227, 231, 248–250
portfolio beta, SML and, 4:413–414
portfolio company, 6:179, 183–184
portfolio construction, 4:456–470
about, 4:456–457
capital market expectations, 4:457
and portfolio returns
defined, 4:327
expected, 1:495, 500
measurement of, 1:365–372
money-weighted rate of return,
1:366–367, 370–372
time-weighted rate of return,
1:367–372
weighted mean, 1:414
for portfolios of risky assets, 4:350,
389–390
portfolio risk, 4:350–361
diversification, 4:356–361
avenues for diversification, 4:359–361
correlation and risk diversification,
4:358
historical correlation among asset
classes, 4:359
historical risk and correlation, 4:358
for portfolios of risky assets
with many risky assets, 4:355–356
with one risk-free asset, 4:389–390
with two risky assets, 4:350–355
portfolio selection
and capital allocation line, 4:347–350
comprehensive example, 4:368–373
for optimal risky portfolio, 4:387–388
and risk aversion, 4:347–350
with utility theory, 4:347–350
portfolio turnover, 1:431–432
Portugal
EU membership, 2:354n.18
exchange rate regime, 2:428
GDP vs. GNP, 2:329
GIPS country sponsor, 1:229
government debt, 2:254
Greek fiscal crisis 2010, 2:357, 358
MSCI multi-market index, 5:96
public sector spending, 2:255
residential mortgage loans, 5:483
sovereign debt, 5:645–646
total returns, 1:404, 407
POSIT, 5:30, 57
positions, 5:38–44
leveraged, 5:41–44
long, 5:39
short, 5:39–41
positive correlation, 4:351
positive screening, 4:38
POS systems. see point of sale systems
post-auditing, 4:44–45
posterior probability, 1:504
post-trade transparent markets, 5:58
potential GDP, 2:155
and demand–pul inflation, 2:231
and long-run equilibrium GDP, 2:159
measuring growth of, 2:175–177,
179–180
production function of, 2:170–171
pound, British
currency code, 2:393
EUR/GBP exchange rate, 2:410, 411n.4
exchange rate quotes with, 2:410–412
GBP/EUR exchange rate, 2:395, 400
gold standard for, 2:426
international bonds outstanding in,
5:349
as reserve currency, 5:19
USD/GBP currency pair, 2:408
PowerLinx, Inc., 3:677
power of a test, 1:621
PPE. see property, plant, and equipment
PPF. see production possibilities frontier
PPL. see Polly Peck International;
producer price index
PPP. see purchasing power parity
PRA. see Prudential Regulation Authority
practice, defined, 1:130
Praxair, 5:209
precautionary money balances, 2:263
precautionary stocks, of inventory, 4:208
precious metals, 6:194
precision, point estimator, 1:588n.13
preclearance procedures, 1:184
predictability, of returns, 5:135–136
pre-dissemination behavior, guidelines for, 1:109
preemptive rights, stockholders', 5:157
prefabricated housing industry, 5:215–216
preference shares (preferred shares), 5:159–161
callable, 5:160, 171, 252
common vs., 5:17–18
convertible, 5:161
cost of, 4:83–84
cumulative, 5:160, 171
diluted EPS for company with, 3:188–190
fixed rate perpetual, 4:83
non-callable, non-convertible perpetual, 5:252–253
non-cumulative, 5:160
non-participating, 5:160
in owners’ equity, 3:242
participating, 5:160
retractable term, 5:252–254
risk of, 5:171
valuation of, 5:251–254
premia, bonds
returns on, 5:527
tax provisions for, 5:315
premremiums, 4:336; 5:399–402; see also specific types, e.g.: risk premiums
prepayment expenses, 3:70, 223–224
Pre-Paid Legal Services Inc., 5:199
prepayment, 5:484; 6:34
prepayment lockouts, 5:501
prepayment penalties, 5:484
prepayment penalty mortgages, 5:484
prepayment penalty points, 5:501
prepayment rate, 5:484–489
prepayment risk, 5:477–478, 488
pre-refunded bonds, 5:501n.12
Presbo, John A., 5:78n.4
Prescott, Edward C., 2:213
presentation(s). see also compliant presentations
aggressive, 3:646, 648–649
of deferred tax, 3:577–578
and detection of financial reporting issues, 3:667–672
graphic presentations of data, 1:397–401; 3:337–339
of income tax information, 3:570–575
of inventory information, 3:426
of long-lived assets, 3:499–512
Daejan Holdings PLC, 3:511–512
fixed asset turnover and average age of depreciable assets, 3:508–510
Vodafone Group Plc, 3:501–506
of long-term debt, 3:603–606
of non-GAAP financial measures, 3:648–652
performance (see performance presentation)
Presentation and Reporting (GIPS Section I.5), 1:238–240
about, 1:230–231
recommendations
general, 1:240
for private equity, 1:248
for real estate, 1:244
requirements
general, 1:238–240
for private equity, 1:246–247
for real estate, 1:242–243
for real estate closed-end fund composites, 1:243–244
for wrap fee/SMA portfolios, 1:250
sample presentations, 1:270–286
asset management company, 1:271–272
investment fund balanced growth composite, 1:270–271
large-cap SMA composite, 1:284–286
Presentation of Financial Statements (IAS 1), 3:124–126, 148n.1
present value (PV)
defined, 1:304
of financial statement elements, 3:121
future and, 1:305, 334–335; 6:62
of growth opportunities, 5:255n.3
present value models for equity valuation, 5:248–262
defined, 5:246
examples, 5:250–251
Gordon growth model, 5:254–258
multistage, 5:258–262
other models vs., 5:246–248, 276–278
preferred stock valuation with, 5:251–254
share value for three-year investment horizon, 5:249
present value of series of cash flows, 1:318–326
with equal cash flows, 1:318–323
for infinite series of equal cash flows, 1:323–324
at other times than $t = 0, 1:324–325
with unequal cash flows, 1:326
present value of single cash flow, 1:315–318
finding, 1:315–317
frequency of compounding, 1:317–318
for future lump sum, 1:315–317
for lump sum, 1:315–317
Preservation of Confidentiality [Standard III(E)], 1:125–129
application of the standard, 1:127–129
compliance procedures, 1:127
guidance, 1:125–126
compliance with laws, 1:126
electronic information and security, 1:126
professional conduct investigations
by CFA Institute, 1:126
status of clients, 1:126
text of, 1:41, 125
presidential cycle, 1:715
press releases, issuing, 1:85
pretax margin, 3:198, 356, 357
pre-tax nominal return, 4:328
pre-trade transparent markets, 5:58
pre-verification procedures, GIPS, 1:257–258
PRL. see Principles of Responsible Investment
price(s)
aggregate, 2:265–266
and alternative trade policies, 2:352
ask, 5:44; 6:10n.3, 172
asset artificial volatility in, 1:94–96
and capital flows, 2:436
and head and shoulders patterns, 1:688–691
normal distribution as model for, 1:543
and oscillators, 1:700
trends in, 1:671–673
and volume, 1:681–682
autarkic, 2:330, 341
bid, 5:44, 570; 6:10n.3, 172
call, 5:328
clean, 5:409
convergence of oscillator and, 1:700
conversion, 5:331
equilibrium, 2:73–74, 264–265
and equilibrium GDP, 2:159–169
aggregate supply and demand, 2:166–169
inflationary gap, 2:163–164
long-run equilibrium, 2:159
recessionary gap, 2:159–163
stagflation, 2:165–166
exercise of covered calls, 6:132
of options, 6:26, 87–88
of warrants, 5:18
flat, 5:409–413
forward, 6:14, 26
full, 1:375n.14; 5:409–413
futures, 6:18, 40–41
harmonisedised of, 2:226
housing, 2:148, 151
input, 2:154, 156
law of one price, 5:267; 6:47, 67
and limit vs. market orders, 5:45–46
market, 5:437; 5:244–246
minimum, 6:91–93, 105–106
offer, 5:44, 570
optimal in monopolies, 2:97–98
in monopolistic competition, 2:81
in oligopolies, 2:91–92
in perfect competition, 2:73–77
option, 6:26
option-adjusted, 5:421
and personal trading practices, 1:93–94
quoted, 5:409
relative, 2:227
repurchase, 5:385
price(s) (continued)
settlement, 6:18
spot, 6:5, 40–41, 197, 200
stability of, 2:272
stock
and aggregate demand, 2:151
as Bernoulli random variable, 1:528–529
binomial model, 1:536–537
and control deficiency disclosures, 1:631–633
lognormal distribution for, 1:551–552
and substitution/income effects, 2:20–23
transaction, 3:167, 168
two-sided, 2:411–412
world, 2:330, 331, 341
price-based indicators, 1:697–700
price limits, futures, 5:364–366
price priority, in order-driven markets, 1:408–409
price return index,
price controls,
price elasticity of demand, 4:156
price discrimination, in monopolies,
price-driven markets.
price elasticity of demand.
price elasticity of demand. see also elasticity(ies)
in oligopolies, 2:84
in perfect competition, 2:66–68
and trade balance, 2:437–441
PRICE financial function, 5:411n.1
price impact, in cost of trading, 4:340
price indices, 2:223–229
constructing, 2:223–225
price return index, 5:79–81
sub-indices, 2:227
usage of, 2:225–227
price limits, futures, 6:19
price multiples. see also specific price multiples
defined, 5:263
example valuation based on, 5:270–271
and method of comparables, 5:267–270
in multiplier models for equity valuation, 5:264–267
price priority, in order-driven markets,
price relative, 1:551
price return, 5:79–81
price return index, 5:79–81
price-specie-flow mechanism, 2:426
price takers, 2:62, 67–68, 4:411
price targets, 1:688–692
price-to-book ratio (P/B)
and accounting ROE, 5:175–176
defined, 3:368–370; 5:263
and survivorship bias, 1:598
price-to-cash-flow ratio (P/CF), 3:368, 369; 5:263
price-to-earnings ratio (P/E)
for Canon Inc., 5:269–270
comparing equity valuation models with, 5:276–278
defined, 3:368, 369; 5:263
justified value of, 5:264–267
and median vs. arithmetic mean, 1:408–409
in method of comparables, 5:267–270
and stock dividends, 4:156
price-to-sales ratio (P/S)
price value of a basis point (PVBP), 5:554
price wars, 2:84, 92
PricewaterhouseCoopers, 3:28, 663
price weighting, 5:83–85, 92
pricing, see also capital asset pricing model (CAPM)
arbitrage-free, 6:70
arbitrage pricing theory, 4:427
in company analysis, 5:230
cross-sectional pricing anomalies, 5:130, 133
derivatives, 6:45–52, 59–117
about, 6:60
and arbitrage, 6:47–52, 66–72
definition of derivatives, 6:60–62
forward commitments, 6:73–85
options, 6:85–100, 104–107
practice problems, 6:109–113
pricing underlying assets, 6:62–66
solutions to problems, 6:114–117
storage in, 6:46–47
valuation vs. pricing, 6:72–73
derivatives pricing rule, 5:57
discriminatory pricing rule, 5:56
by dominant firms in oligopolies, 2:90–91
forward commitments, 6:73–85
forward contracts, 6:73–80
futures, 6:80–82, 198–200
and market structure, 2:62–63
matrix, 4:82; 5:413–416
in oligopolies, 2:84–90
options, 6:85–100, 104–107
American options, 6:104–107
European options, 6:85–100
volatility in pricing models, 1:553–554
over life of contract, 6:76–77
risk, 4:400–402
risk-neutral, 6:69–70
risk aversion of investors, 6:63–64
uniform pricing rule, 5:56
price day, 5:360
pricing power, 5:207–210
primary dealers, 5:30, 362
primary funds, 1:245–247, 266
primary fund vehicle, 1:282–284
primary markets
bond, 5:357–363
private placements on, 5:358, 362–363
public offerings on, 5:358–362
capital, 5:13–14
securities, 5:14–15, 50–53
defined, 5:14
private placements on, 5:52–53
public offerings on, 5:50–53
and secondary markets, 5:53
primary sources of liquidity, 4:183
Prime Bank, 5:305
prime brokers, 5:33, 49; 6:170
prime lending rate, 2:237; 5:372
prime loans, 5:482
prime paper, 5:373
Princeton University, 4:244
principal (principal amount; principal value), 1:304; 5:298
principal–agent relationship, 4:11
principal business activity, industry classification based on, 5:189
principal repayment structures, 5:316–321
for bullet bonds, 5:316–318
for corporate notes/bonds, 5:376–377
for fully amortized bonds, 5:316–318
for sinking fund arrangements, 5:319–321
principle of no arbitrage, 6:70
Principles of Corporate Governance, 47, 22
Principles of Responsible Investment (PRI), 4:37
prior coverage, 1:62
prior employer, 1:123, 134
prior fund, in performance presentation, 1:123
prior information, 5:135–136
priority of claims, 5:591, 595–596
Priority of Transactions [Standard VI(B)], 1:181–186
application of the standard, 1:184–186
compliance procedures, 1:182–184
guidance, 1:181–182
accounts with beneficial ownership, 1:182
avoiding potential conflicts, 1:181
nonpublic information, 1:182
personal trading and trading for clients, 1:181
text of, 1:43–45, 181
prior probabilities, 1:503
prior work, ownership of, 1:135
private contracts, 3:664
private energy partnerships, 5:196
private equity, 6:175–184
defined, 1:266
diversification benefits, 6:181–183
downside frequencies, 6:157
due diligence, 6:184
and GIPS compliance, 1:227
GIPS Valuation Principles (GIPS), 1:252, 253
growth in, 6:153
historical returns and volatility, 6:152
investment strategies, 6:177–181
exit strategies, 6:180–181
leveraged buyouts, 6:177–179
minority and distressed, 6:180
venture capital, 6:179–180
portfolio company valuation, 6:183–184
returns for, 6:182–183
risk management with, 6:203
sample presentations, 1:277–284
Sharpe ratios and downside risk measures, 6:156–157
structure and fees, 6:176–177
Private Equity (GIPS Section 1.7),
1:245–248
about, 1:231
Calculation Methodology provisions, 1:245, 248
Composite Construction provisions, 1:246, 248
Disclosure provisions, 1:246, 248
Input Data provisions, 1:245, 248
Presentation and Reporting provisions, 1:246–248
recommendations, 1:248
requirements, 1:245–247
Private Equity Council, 6:153
private equity funds
as alternative investments, 6:150
defined, 6:154
returns on, 6:181–183
private equity securities, 5:15, 162–164
private information, 5:128
private investments in public equity (PIPEs), 5:162–163
private investors, strategic asset allocation for, 4:464–465
privately placed notes, 5:506
private placements
on bond market, 5:358, 362–363
limits on, 1:183
Regulation D on, 6:158n.14
on securities market, 5:52–53
private sector, size of, 5:643
probability(ies), 1:471–520
a priori, 1:474
about, 1:472
Bayes' formula, 1:502–506
for common stock portfolio, 1:546
conditional, 1:476–479, 483–484
consistent, 1:476
correlation, 1:499, 501–502
counting, 1:506–509
combination formula, 1:508–509
multinomial formula, 1:508
multiplication rule of, 1:507–508
permutation formula, 1:509
cumulative, 1:732–733
defined, 1:473–474; 4:297
down transition, 1:536
empirical, 1:474
events
defined, 1:472–473
independent events, 1:481–484
expected value, 1:486–490
defined, 1:486–487
of product of uncorrelated random variables, 1:502
properties of, 1:494–495
standard deviation, 1:487–488
total probability rule for expected value, 1:488–490
tree diagrams, 1:489–490
variance, 1:487–488
joint, 1:477
joint probability function, 1:500–502
marginal, 1:476
objective, 1:474
portfolio expected return calculation of, 1:495
and variance of return, 1:500
posterior, 1:504
practice problems, 1:513–516
prior, 1:503
of random variables, 1:502
risk-neutral, 6:102–103
rules
addition rule for probability, 1:479–480
multiplication rule for expected value of product of uncorrelated random variables, 1:502
multiplication rule for probability, 1:477, 479
multiplication rule of counting, 1:507–508
total probability rule, 1:484–486
solutions to problems, 1:517–520
subjective, 1:474
in terms of odds, 1:474–477
transition, 1:536
unconditional, 1:476
up transition, 1:536
variance
conditional variances, 1:490–493
covariance, 1:495–500
and portfolio expected return, 1:500
probability density function, 1:526
probability distributions, 1:523–573
continuous random variables, 1:537–555
continuous uniform distribution, 1:538–541
lognormal distribution, 1:549–555
normal distribution, 1:541–549
cumulative probabilities for standard normal distribution, 1:732–733
defined, 1:524
discrete random variables, 1:525–537
binomial distribution, 1:528–537
discrete uniform distribution, 1:526–528
distribution of bond price, 1:525–526
Monte Carlo simulation, 1:555–561
historical simulation vs., 1:560–561
number of trials for, 1:557
potential gains from market timing, 1:558–560
process, 1:556–557
random observations in, 1:557–558
practice problems, 1:564–568
of sample mean, 1:582–585
solutions to problems, 1:569–573
Procedures, IPS, 4:441
Procter & Gamble, 4:158–159; 5:210
procurement process, 1:58
producer price index (PPI), 2:226
producer surplus, 2:349, 352
product, of uncorrelated random variables, 1:502
product differentiation and market structure, 2:63
in monopolistic competition, 2:79–80
and price collusion, 2:89
production
and alternative trade policies, 2:352
in autarky, 2:341
break even point of, 2:36–39
and costs, 2:23–25
globalization of, 2:334–335
scaling up vs. scaling down, 2:44
production costs, 3:397n.7
production function, 2:170–171
production possibilities frontier (PPF), 2:342–343
productive capacity, 3:507
productivity
and aggregate supply, 2:156
in cost-push inflation, 2:230–231
defined, 2:23–25
diminishing marginal, 2:170–171
and economic growth, 2:171
indicators of, 2:220
of labor, 2:156, 176–180
and long-term aggregate supply, 2:156
and marginal returns, 2:23
total factor, 2:170, 174
products
new, 3:132
of similar companies, 5:189–190
profession (term), 1:9–10
professional conduct. see Standards of Professional Conduct
professional conduct investigations, 1:126
Professional Conduct Program (PCP), 1:33–34, 47, 78, 126
Professional Conduct Statement, 1:8–9
professional designations, order of, 1:49, 50
professionalism, 1:9–11, 78
Professionalism [Standard of Professional Conduct I], 1:45–80
Independence and Objectivity
[Standard I(B)], 1:54–66
application of the standard, 1:60–66
compliance procedures, 1:59–60
guidance, 1:54–59
text of, 1:40, 54
Knowledge of the Law [Standard I(A)], 1:45–53
application of the standard, 1:51–53
compliance procedures, 1:50–51
guidance, 1:45–49
text of, 1:40, 45
Misconduct [Standard I(D)], 1:77–80
application of the standard, 1:78–80
compliance procedures, 1:78
guidance, 1:77–78
text of, 1:40, 77
Misrepresentation [Standard I(C)], 1:67–77
application of the standard, 1:72–77
compliance procedures, 1:70–71
guidance, 1:67–70
text of, 1:40, 67
text of, 1:40
professionally designated, certified, or licensed commercial property:
valuers/appraisers defined, 1:266
GIPS Valuation Principles (GIPS Section II), 1:252
Real Estate (GIPS Section 1.6), 1:241, 242, 244
professional misconduct, 1:79–80
profit(s)
accounting defined, 2:28, 3:550
taxable income vs., 3:550–555
taxable profit vs., 3:560–565
with calls, 6:27–28, 123–126, 130–133
cash flow vs., 3:7–8
economic defined, 2:28, 73
marginal revenue and maximization of, 2:29
in monopolistically competitive markets, 2:81, 82
in strategic analysis, 5:204
as form of payment, 2:115
gross, 3:152
and inflation, 3:405–406
and inventory valuation method, 3:400–402
and LIFO liquidation, 3:414, 416–417
in periodic vs. perpetual inventory systems, 3:402–404
maximization under imperfect competition, 2:40–41
and marginal revenue/costs, 2:29–30
points of production for, 2:36–37
and scale, 2:43–48
maximum for calls, 6:124, 130, 131
for puts, 6:127, 128, 135
in monopoly, 2:95–96, 98, normal, 2:33
operating defined, 3:18
and depreciation method, 3:679–680
EBIT vs., 3:153
forecasts of, 3:715–716
on income statement, 3:153
with puts, 6:28–29, 126–129, 134, 135
taxable, 3:560–565
profitability and capitalising vs. expensing of costs, 3:472, 474
cost flow assumptions and, 3:673–674
in credit analysis, 5:611–612
and degree of operating leverage, 4:129–130
profitability index (PI), 4:54
profitability ratios, 3:356–360; 5:231
calculation, 3:356–357
defined, 3:340
evaluation, 3:358–360
and income statement ratios, 3:199
interpretation, 3:357–360
profit and loss (P&L) statements, 3:17.
see also income statements
profit margins:
gross, 3:356, 357
calculating, 3:406
and conversion from LIFO to FIFO, 3:412–413
defined, 3:357
and income statement ratios, 3:198
on income statements, 3:152
inventory management with, 3:426, 427
and inventory write-downs, 3:425
in ratio analysis, 3:325
and income statement ratios, 3:197
net, 3:356, 357
calculation of, 3:326
and conversion from LIFO to FIFO, 3:413
defined, 3:357
and income statement ratios, 3:197
and inventory write-downs, 3:425
in ratio analysis, 3:325
operating, 3:356, 357
defined, 3:357
and depreciation method, 3:679–680
and income statement ratios, 3:198
pretax, 3:198, 356, 357
pro forma reporting, 3:667
project beta. see beta
project sequencing, 4:47–48
promissory note, 2:258
promotion, company, 1:93
property, plant, and equipment (PPE), 3:462, see also long-lived assets
acquisition of, 3:463–466
analyst adjustments for, 3:735–736
on balance sheets, 3:229–230
on cash flow statements, 3:287–288
depreciation of, 3:735–736
impairment of, 3:494–496
investment property, 3:230–231
sale of, 3:288
property development investments, 6:193
proposals, in capital budgeting process, 4:44
proprietary assets, 1:238, 266
proprietary trading procedures, 1:87
prorated revenue recognition, 3:158, 159
prospective clients. see also
Communication with Clients and Prospective Clients [Standard V(B)]
benefits of GIPS compliance for, 1:221
Composite Construction (GIPS Section 1.3), 1:235
defined, 1:266
Disclosure (GIPS Section 1.4), 1:237
Fundamentals of Compliance (GIPS Section I.0), 1:232
GIPS Advertising Guidelines (GIPS Section III), 1:254
Verification (GIPS Section IV), 1:256
Wrap Fee/SMA Portfolios (GIPS Section I.8), 1:248–250
prospectus, 5:474n.3, 475, 622
Protection One, Inc., 5:199, 200
protective puts defined, 6:95, 134
fiduciary calls vs., 6:96, 99
with forward contracts, 6:98–99
risk management with, 6:134–136
"Protocol for Broker Recruiting," 1:131
Prokopoulopoulos, George, 2:379
proxy, for market portfolio, 4:426
proxy contests, 4:26
proxy statements, 3:109
proxy voting, 1:100, 102; 4:16, 27–28
prudence. see Loyalty, Prudence, and Care [Standard III(A)]
Prudential Regulation Authority (PRA), 2:270n.6; 5:351n.3
P/S. see price-to-sales ratio
PSA Peugeot Citroën, 5:189
PSA prepayment benchmark. see Public Securities Association prepayment benchmark
pseudo-random numbers, 1:557n.46
P/S ratio. see price to sales ratio
public auctions, 5:360–362
public companies, independence and objectivity of, 1:57
Public Company Accounting Oversight Board (PCAOB), 3:27, 108
public dissemination, achieving, 1:84
public equity securities, 5:15, 162–164
public information, 5:125–128
publicly offered notes, 5:505
publicly traded infrastructure securities, 6:201
public market equivalent (PME), 1:246, 266
public offerings on bond market, 5:358–362
initial and conflicts of interest, 1:182–183
defined, 5:50
duties to clients, 1:111
ethical decision-making framework for, 1:22–25
as exit strategies, 6:181
in markets, 5:51–52
and pricing anomalies, 5:135
and technical analysis, 1:714
venture capital, 5:162
on securities market, 5:50–53
public sector, size of, 5:643
public sector spending, 2:255
Public Securities Association (PSA) prepayment benchmark, 5:489
pull on liquidity, 4:184–185
pull to par effect, 5:406–407
pump and dump strategy, 1:96
pump-priming strategy, 1:95
purchase agreements, 5:474–475
purchasing–inventory–payables process, 4:44
and inventory valuation method, 5:611–612
and marginal revenue/costs, 4:129–130
quality of earnings, 3:221–225
Purchasing–Receiving Department (PRD), 2:180
purchasing managers indices, 2:240
purchasing power parity (PPP), 2:394, 396
pure discount bonds, 5:299
pure discount instruments, 1:373
pure-play method, for beta, 4:91–95
PureTrading, 5:30
purpose, investment policy, 4:198
putable bonds, 5:330, 377
effective convexity of, 5:563
interest rate risk with, 5:550
putable common shares, 5:159, 171
putable preference shares, 5:171
put–call–forward parity, 4:44
put–call parity, 6:94–98, 100

Level I Cumulative Index
Real Estate (GIPS Section I.6), 1:240–244
about, 1:231
Calculation Methodology provisions, 1:241–244
for closed-end fund composites, 1:243–244
Composite Construction provisions, 1:243
Disclosure provisions, 1:242–244
Input Data provisions, 1:241, 244
Presentation and Reporting provisions, 1:242–244
recommendations, 1:244
requirements, 1:241–244
real estate investment trust (REIT) indices, 5:102; 6:189, 190
real estate investment trusts (REITs)
and beta exposure, 6:155
equity, 6:188
function of, 6:186
growth in, 6:153
indirect investment with, 5:26
mortgage, 6:188
returns on, 6:190–191
risk management with, 6:203
shares of, 6:187
tax advantages for, 6:152
valuation of, 6:192
real estate limited partnerships, 6:187
real exchange rates, 2:394–398
real GDP, 2:120–123
economic growth, 2:169
identifying recession with, 2:199–200
and international trade, 2:336
in Japan, 2:168–169
and shifts in aggregate supply/demand, 2:166–169
real income, 2:18–19
real interest rate, 2:136
realizable value, 3:121
realization multiple (DPI) defined, 1:263, 267
Private Equity (GIPS Section I.7), 1:247
Real Estate (GIPS Section I.6), 1:244
real money accounts, in FX market, 2:404
real money supply, 2:140–142
real rate duration, 5:570
real returns
of asset classes in other countries, 4:336–337
of asset classes in United States, 4:335–336
defined, 4:328–329
on equity securities, 5:152–154
real risk-free interest rate, 1:303; 4:333
reasonable basis. see also Diligence and Reasonable Basis [Standard V(A)] defined, 1:151
developing, 1:155
reasonableness testing, for company analysis, 5:232
rebalancing
of indices, 5:86, 91–92
in portfolio management, 4:251
rebalancing policy, 4:467
rebate programs, 3:690
rebuilding cost, 6:192
recapitalization, private equity, 6:181
receipts
customers’, 4:203–206
government, 2:295–298
receivables
commercial, 3:46
discounted, 4:216
dividends, 3:556, 563
as drag on liquidity, 4:184
number of days of, 4:186, 207
other, 3:46
payments of, 1:629–630
trade, 3:46, 219–221
receivables turnover, 3:341, 344–345
recession, 2:16m.15
defined, 2:197
identifying, 2:199–200
investor preferences, 2:198–199
recessionary gap, 2:159–163, 201
recognition. see also revenue recognition
Conceptual Framework on, 3:120
and derecognition, 3:497–499, 599–601
expense, 3:16, 150–151, 170–179
of finance leases, 3:609–611, 620–622
of financial report elements, 3:120
tax, 3:560n.4
taxable and accounting profit at, 3:564
recognition lag, 2:310
recommendation objectivity, 1:64–65
recommendations. see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V]
defined, 1:267
fair dealing in, 1:106–107
from financial statement analysis, 3:34–35
in investment policy statements, 1:172
as material nonpublic information, 1:189–90
number of people privy to, 1:108
reasonable basis for, 1:151
reconstruction, 5:92–93
record date, 4:161–162
record keeping, supervision of, 1:147
Record Retention [Standard V(C)], 1:170–172
application of the standard, 1:172
compliance procedures, 1:171
guidance, 1:170–171
local requirements, 1:171
new media records, 1:171
records as firm property, 1:171
text of, 1:142, 170
record
maintenance of, 1:86, 260
as property of firm, 1:171, 172
retention of, 1:172
recourse loans, 5:848
recoverable amount, 3:495, 657
recovery
capital spending in, 2:202
unemployment rate in, 2:219
recovery rates
in credit analysis, 5:593–596
on defaulted bonds, 1:636–638
of non-agency RMBSs, 5:499
rectangle patterns, 1:696
redemptions, hedge fund, 6:159, 170–172
redemption yield, 5:302. see also yield-to-maturity
reference rates, 5:350–351, 421–422
references, employee, 1:78
Reference to CFA Institute, Designation and Program [Standard VII(B)], 1:194–200
application of the standard, 1:198–200
compliance procedures, 1:198
guidance, 1:194–198
CFA designation, 1:195
CFA Institute membership, 1:195
referring to candidacy in CFA program, 1:195–196
use of CFA marks, 1:196–198
text of, 1:43, 194
referral arrangements
disclosure of, 1:186–188
informing firms of, 1:187
interdepartmental, 1:187
Referral fees [Standard VI(C)], 1:186–188
application of the standard, 1:186–188
compliance procedures, 1:186
guidance, 1:186
text of, 1:43, 186
refinancing rate, 2:276
renewing credit, 6:184
Reg D Offerings, 6:158n.14
Regional Investment Performance Subcommittees, 1:228
regional trading agreements (RTAs), 2:354–358
Regis Corporation, 5:199
registered bonds, 5:312
registration requirements, of market regulators, 3:662
regression analysis, 2:102; 3:339;
4:406–407
regular cash dividends, 4:153–154
regular line of credit, 4:215, 216
Regulation D, 6:158n.14
Regulation FD (SEC), 3:110n.13; 5:122
Regulation of the European Parliament and of the Council on OTC Derivatives, Central Counterparties, and Trade Repositories, 6:12–13
regulations
and ethics, 1:17–19, 37
on financial reporting, 5:61
for futures, 6:21
for markets, 5:60–63
for monopoles, 2:101–102
for OTC derivatives market, 6:12–13
for pension funds, 5:62
for stakeholder management, 4:20
Regulation S ADRs, 5:168
Regulation T (Federal Reserve), 5:41
regulatory authorities (regulators), 3:106–111. see also US Securities and Exchange Commission (SEC)
for capital markets in Europe, 3:111
discipline for financial reporting quality from, 3:661–665
International Organization of Securities Commissions, 3:106–107
and remuneration policies, 4:18
S-1 registration statements for, 3:109–110
shareholder conflicts with, 4:13
as stakeholders, 4:10
regulatory influences
and fixed-income securities, 5:311–314
of government, 5:224–226
and industry life-cycle, 5:217
and IPFs, 4:451–452
in strategic analysis, 5:220
regulatory projects, capital budgeting for, 4:45
regulatory risk, 5:220
REIT indices. see real estate investment trust indices
REITs. see real estate investment trusts
rejection point
for tests on population variance, 1:642–644
for tests on relative values of population variances, 1:645–647
for test statistic, 1:622–624
for z-test alternative, 1:631
rejection region, test statistic, 1:622
related parties, gifts and entertainment
and company valuation, 3:551
rent received in advance
and tax bases of liabilities, 3:558, 559
and temporary differences, 3:563, 564
reorganization, 4:142–143; 5:596
replacement proceeds, bond, 5:304–305
repeat sales indices (real estate), 6:189, 190
replacement projects, capital budgeting for, 4:45
replication, 5:35; 6:68–69
repo margin, 3:386
repo rate, 2:276; 5:385
reporting. see also financial reporting
incident-reporting procedures, 1:133
of material nonpublic information, 1:86
performance, 1:68–69, 454–455
of potential unethical actions, 1:53
pro forma, 3:667
requirements for investment personnel, 1:183–184
and stakeholder management, 4:17
of violations, 1:51
reporting NAV, 6:172
“Report on Securitization Incentives” (Bank for International Settlements), 5:472
reports. see also financial reports
earnings, 3:693
facts vs. opinions in, 1:164
flash, 1:109
material nonpublic information in, 1:84
performance examination, 1:260, 266
in portfolio management, 4:252
presentation of, 1:164
research, 1:84
on short-term investment portfolio, 4:200
verification, 1:256, 257, 260, 269
repos. see repurchase agreements
repo to maturity, 5:385
representation letter, 1:260
representative accounts, 1:219
representativeness bias, 5:138
representative sectors, for commercial industry classifications, 5:193–194
representative security market indices, 5:103–104
Repsoil, 1:421
repurchase agreements (repos) defined, 2:276
as fixed-income instruments, 5:17
other short-term instruments vs., 4:194
structure of, 5:384–387
repurchase date, 5:385
repurchase price, 5:385
reputational risk, 4:29
requested favors, 1:179
request for proposal (RFP), 1:136
required margin, 5:422
required rate of return
and cost of equity, 5:177–178
in dividend discount model based approach, 4:88
and financing costs for capital expenditures, 4:46
and market discount rate for bonds, 5:398
for present value models, 5:251
required yield, 5:398
required yield spread, 5:414
requirements (term), 1:267
research
diligence, 1:154
group, 1:153, 156
independence of, 1:61–62, 64
issuer-paid, 1:58–59, 72
and plagiarism, 1:69–70
quantiles in, 1:424–426
quantitatively oriented, 1:152–153
reasonable basis for, 1:155
and record retention, 1:172
sampling biases in, 1:600–601
secondary, 1:151–152
supervision of, 1:146–147, 149–150
third-party, 1:151–152, 156
research and development (R&D)
domestic productivity and foreign, 2:336
goodwill from, 3:234
intangible assets in, 3:232, 467
IRR rule for, 1:361–362
NPV rule for, 1:360
and technology as source of economic growth, 2:174
research costs, 3:556, 557, 563, 657
research reports, material nonpublic information in, 1:84
reserve, LIFO, 3:407–413
converting LIFO to FIFO inventory with, 3:408–413
defined, 3:407
and LIFO liquidations, 3:413–414
reserve accounts, 5:307
reserve banking systems, 2:149–150, 258–260
Reserve Bank of Australia, 2:272
Reserve Bank of India, 2:226
Reserve Bank of New Zealand, 2:279, 281, 282
Reserve Bank of New Zealand Act, 2:279, 282
reserve funds, 5:307, 383–384
reserve requirements, 2:359
of central banks, 2:260, 276–277
and monetary policy, 2:276–277
and money creation, 2:259
residential mortgage-backed securities (RMBS), 5:486–499
of mortgage-backed securities, 5:486–499
collateralized mortgage obligations, 5:492–499
floating-rate tranches, 5:497
planned amortization class tranches, 5:495–497
sequential-pay structures, 5:493–495
support tranches, 5:495–497
mortgage pass-through securities, 5:487–492
cash flow construction, 5:489–490
characteristics, 5:487–488
collateralized mortgage obligations vs., 5:492–493
defined, 5:487
residential mortgage-backed securities (RMBS) (continued)
prepayment rate measures, 5:489
prepayment risk, 5:488
weighted average life, 5:490–491
non-agency residential mortgage-backed securities, 5:499
residential mortgage loans, 5:481–486
amortization schedule, 5:483–484
interest rates, 5:482–483
lender’s rights in foreclosures, 5:484–485
maturity, 5:482
prepayment options and penalties, 5:484
and real estate investments, 6:187–188
residential property investments, 6:185, 187–188
residual claim, 3:46–47
residual tranche, 5:500
residual value
and amortisation/depreciation expense, 3:175–178
defined, 1:267
Private Equity (GIPS Section I.7), 1:247
Real Estate (GIPS Section I.6), 1:244
resistance, 1:685
resources
capital spending, 2:201–203
consumer behavior and use of, 2:204–206
cyclical use of, 2:200–206
inventory levels, 2:203–204
natural, 2:155–157, 174
non-renewable, 2:174
renewable, 2:174
Responsibilities as a CFA Institute Member or CFA Candidate (Standard of Professional Conduct VII), 1:189–200
Conduct as Participants in CFA Institute Programs (Standard VII(A)), 1:189–193
application of the standard, 1:191–193
eleventh addition revision, 1:32–33
guidance, 1:189–191
text of, 1:43, 189
Reference to CFA Institute, Designation and Program (Standard VII(B)), 1:194–200
application of the standard, 1:198–200
compliance procedures, 1:198
guidance, 1:194–198
text of, 1:43, 194
Responsibilities of Supervisors (Standard IV(C)), 1:142–150
application of the standard, 1:146–150
compliance procedures, 1:144–146
adequate, 1:144–145
and code of ethics, 1:144
establishing appropriate incentive structures, 1:146
implementation of compliance education and training, 1:145
eleventh edition revision, 1:32
guidance, 1:142–144
detection as part of supervision, 1:43–144
system for supervision, 1:143
text of, 1:142, 144
responsibility(ies)
accepting, 1:148
of employers, 1:130
execution-only, 1:105
responsibility statements, 3:662
responsible investing (RI), 4:36
restaurants
asset-based equity valuation for, 5:275–276
barriers to entry for, 5:206
restricted lists, creating, 1:60
restricted payments covenant, 5:640
restricted periods, 1:183
restricted subsidiaries, 5:640
restrictions
on asset disposals, 5:308
on debt, 5:308
on distributions to shareholders, 5:308
on international investment, 5:164
investment policy, 4:198
on investments, 5:308
on mergers and acquisitions, 5:308
on prior claims, 5:308
trade, 2:348–361
capital restrictions, 2:358–361
quotas, 2:351–353
 tariffs, 2:348–353
restructuring events, 3:658, 694
results
overemphasis of, 1:77
quality of, 3:642
simulated, 1:123–124
retail accounts, in FX market, 2:405
retail currency transactions, 5:20
retail deposits, 5:383
retail investors, 5:356
retail method for inventory valuation, 3:221
Retail Price Index (RPI), 5:323, 324, 368
retail sales, consumer spending and, 2:205
retained cash flow (RCF), 3:723
retained earnings, 3:48–49, 68, 242
retrialation, price collusion and, 2:89
retention rate, 3:369, 371
retired CFA Institute membership status, 1:199
retracements, 1:684
retractable term preferred shares, 5:252–254
retraction, 5:253n.2
retroactive application, of accounting policies, 3:182
return(s), 4:318–333. see also specific types of investments
abnormal, 5:124
absolute, 6:155
accounting return on equity, 5:172–177
active, 5:116
in advertisements, 1:287–289
annual, 1:288–289
annualized, 6:325–327
arithmetic, 4:320
and bank discount yield, 1:374
and beta, 4:405–406, 413–414
capital, 1:242, 261
on capital market line, 4:395–396
CAPM’s prediction of, 4:426
continuously compounded, 1:551–552
covariance of, 4:331
credit risk vs., 5:624–633
dollar-weighted, 1:366n.9
expected, 1:495, 500
and beta, 4:407–409
CAPM estimation of, 4:414–415
and historical mean return, 4:333–334
and SML, 4:412–413
and strategic asset allocation, 4:462–463
Fama and French three-factor model, 5:133
on fixed-income securities, 5:526–533
geometric mean, 1:416–419;
4:320–321
gross, 4:327–328
gross-of-fees
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:264
disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
Presentation and Reporting (GIPS Section I.5), 1:239, 240
Private Equity (GIPS Section I.7), 1:246
Real Estate (GIPS Section I.6), 1:242, 244
historical, 4:337
estimating cost of equity with, 4:86–88
historical mean return and expected return, 4:333–334
nominal and real returns of asset classes in other countries, 4:336–337
nominal returns of major US asset classes, 4:334–335
real returns of major US asset classes, 4:335–336
risk–return tradeoff, 4:337–338
historical mean, 4:333–334
holding period, 4:319
defined, 1:365, 390
finding ending value of investment with, 1:552
formula, 1:390
and time-weighted rate of return, 1:368
income, 1:242, 264
independently and identically distributed, 1:552
industry classifications based on correlations in, 5:191
law of diminishing, 2:75
leveraged, 4:329
and liquidity, 1:424–426
marginal, 2:23–28
and definition of productivity, 2:23–25
law of diminishing marginal returns, 2:23
and total/average product of labor, 2:25–28
mean, 4:320
ex: 1:442
geometric, 1:416–419; 4:320–321
historical, 4:333–334
on S&P 500, 1:634–635
money-weighted, 4:322–323
net, 4:327–328
net-of-fees
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:265
Disclosure (GIPS Section I.4), 1:236
GIPS Advertising Guidelines (GIPS Section III), 1:255
for hedge funds, 6:160–161, 168
Presentation and Reporting (GIPS Section I.5), 1:239
Private Equity (GIPS Section I.7), 1:245, 246
Real Estate (GIPS Section I.6), 1:242, 244
nominal
of asset classes in other countries, 4:336–337
of asset classes in United States, 4:334–335
pre-tax/after-tax, 4:328
normal distribution as model for, 1:543
portfolio
defined, 4:327
expected portfolio returns, 1:500
measurement of returns, 1:365–372, 414
for portfolios of risky assets, 4:350, 389–390
predictability of, 5:135–136
price, 5:79–81
real, 4:328–329
of asset classes in other countries, 4:336–337
of asset classes in United States, 4:335–336
defined, 4:328–329
on equity securities, 5:152–154
risk and, 4:353–355 (see also risk–return tradeoff)
risk-free, 4:393–395
to scale, 2:45, 46
security market indices as proxies for, 5:94
single-period, 5:79–81
total
Calculation Methodology (GIPS Section I.2), 1:233
defined, 1:268
for equity securities, 5:169–170
GIPS Advertising Guidelines (GIPS Section III), 1:255
for leveraged stock purchase, 5:42–43
for multiple periods, 5:81–82
Presentation and Reporting (GIPS Section I.5), 1:239
price vs., 5:79
Real Estate (GIPS Section I.6), 1:242
on real estate, 6:184
for single period, 5:80–81
uncorrelated, 4:351
variance of, 4:331
for portfolio of assets, 4:331, 355–356
for portfolio of risky assets, 4:389
for single asset, 4:330
and standard deviation, 4:331
return-generating models for beta, 4:402–403, 425. see also capital asset pricing model (CAPM)
decomposition of total risk for, 4:404
market model, 4:404–405
single-index models, 4:404
three- and four-factor, 4:403
return interval, beta, 4:91
return objectives, on IPSs, 1:245, 246
development of, 3:357
operating, 3:357
segment, 3:378–379
return on capital, 3:357, 358, 375
return on common equity, 3:357
return on equity (ROE), 3:358
accounting, 5:172–177
and accounting method, 5:173
and accounting standards, 3:710–712
and book vs. intrinsic value, 5:176–177
in company analysis, 5:232
decomposition of, 3:362–367
defined, 3:357
formulas, 5:172–173
and justified forward P/E, 5:266–267
for Pfizer, Novartis AG, and GlaxoSmithKline, 5:173–175
defined, 3:357
ratio analysis, 3:328
return on invested capital (ROIC), 5:204
return on investment, 3:357
return on sales. see net profit margin
return on total capital, 3:357, 358
return on sales. see net profit margin
return on total capital, 3:357, 358
revenue(s)
and accounts receivable, 3:690
accrued, 3:70
average, 2:35
coefficient of variation for, 3:372
and credit sales, 3:674–675
deferred/unearned
accrual accounting, 3:70
coefficient of variation for, 3:372
and credit sales, 3:674–675
deferred/unearned
accrual accounting, 3:70
analysis of, 3:226–228
balance sheet, 3:58
cash as current liability, 3:226
on income statements, 3:154
defined, 3:44
gross vs. net reporting of, 3:163–164
on income statements, 3:16, 149
and interest expense, 5:644
income, 3:170–172
marginal
and marginal cost/profit
maximization, 2:29–30
in monopolies, 2:94–98
in monopolistic competition, 2:81–83
in oligopolies, 2:86, 87, 90, 92
in perfect competition, 2:66, 74–75
and price elasticity, 2:69–70
outsized growth of, 3:690
total
in oligopoly, 2:86
under perfect and imperfect competition, 2:35–36
and price elasticity, 2:69–70
in shutdown analysis, 2:41–42
unbilled, 3:70
unearned
accrual accounting for, 3:70
analysis of, 3:226–228
on balance sheets, 3:58
cash as current liability, 3:226
on income statements, 3:154
revenue bonds, 5:647–648
Revenue from Contracts with Customers (ASU 2014–09), 3:16n.24, 167
Revenue from Contracts with Customers (IFRS 15), 3:16n.24, 167
calculation per employee, 3:372
calculation recognition
completed contract method, 3:158–159, 161
and financial reporting issues, 3:674–675, 686–687, 689–690
on income statements, 3:153–169
accounting standards issued May 2014, 3:166–169
for barter transactions, 3:163
and financial statements, 3:165–166
general principles, 3:154–157
gross vs. net reporting of revenues, 3:163–164
for installment sales, 3:162–163
for long-term contracts, 3:158–161
in special cases, 3:157–164
installment method, 3:162–163
in oil and gas industry, 3:656
percentage-of-completion method, 3:158–160
prorated, 3:158, 159
revenue sufficiency, of tax policy, 2:304
reversal, impairment, 3:497
reversal patterns, 1:686–693
continuation of, 1:686
double tops and bottoms, 1:691–693
head and shoulders, 1:687–691
about, 1:687–688
determining price targets from, 1:690
inverse, 1:689–691
setting price targets with, 1:688–691
triple tops and bottoms, 1:692–693
reversal size, on point and figure charts, 1:679
reverse floating-rate notes, 5:322
reverse mortgages, 4:318n.1
reverse repurchase agreements (reverse repos), 5:386
reverse stock splits, 4:159–160
reviewable ARM, 5:483
reviews
account, 1:101, 110
of compliance procedures, 1:50
for independence/objectivity, 1:60
by market regulators, 3:662
revolving credit accounts, 4:202
revolving credit agreements, 4:215–217
revolving period, 5:504
RFP: see request for proposal
RGS classification. see Russell Global Sectors classification
rho, 4:298
risk(s). see also specific types
acceptance of, 4:303
with alternative investments, 6:151,
156–157, 204–205
with arbitrage transactions, 6:70
Bloomberg's statistic for, 5:554
on capital market line, 4:395–396
defined, 4:271
and economic activity, 4:269
of equity securities, 5:170–171
identification of, 4:286–295
and interactions between risks,
4:292–294
non-financial risks, 4:286, 288–292,
294–295
in risk management framework,
4:273
with infrastructure investments, 6:201
interactions between, 4:292–294
of investment analysis, 1:163–164
investors' willingness/ability to take,
4:443–445
of major asset classes, 4:337
market of, 4:347
measures/measurement of, 4:273–274,
297–301, 308–309; 6:156–157
Monte Carlo simulation for assessing,
3:722
of mutual funds, 1:628–629, 643–644
notification of, 1:169–170
prevention and avoidance of,
4:301–302
pricing of, 4:400–402
with real estate investments, 6:193
of relying on credit ratings, 5:601–604
and repo rate, 5:385
return and, 4:353–355 (see also risk–
return tradeoff)
transfer of, 6:8, 40
of two-asset portfolio, 4:332–333
risk-adjusted performance, 5:94
risk allocation, 6:40
risk arbitrage, 6:50n.24
risk-arbitrage trading, 1:87
risk attitude, clients', 4:443
risk averse (term), 4:342
risk aversion, 4:341–350
and arbitrage-free pricing, 6:69
in CAPM assumptions, 4:410
concepts, 4:341–342
and indifference curves, 4:343–345
loss aversion vs., 5:137
and optimal portfolio, 4:373–374
and portfolio selection, 4:347–350
and pricing of underlying, 6:63–64
and utility theory, 4:342–350
risk aversion coefficient, 4:343
risk budgeting, 4:283–285, 465, 466
risk committees, 4:23
risk culture, 4:278
risk drivers, 4:271n.1, 296–297
risk exposures, 4:271–272; 5:39
risk-free assets, 4:365–368
capital allocation line and optimal risky
portfolio, 4:365–366
and capital market line, 4:393–395
combining risky assets with, 4:389–392
and homogeneity of expectations
assumption, 4:391–392
two-fund separation theorem,
4:366–367
utility theory and selection of,
4:374–375
risk-free bonds, arbitrage with,
4:47–49
risk-free interest rate
and equity risk premium, 4:90n.23
and expected return, 4:333
nominal, 1:303
and option pricing/valuation, 6:89
real, 1:303; 4:333
and sovereign debt, 5:641–642
term structure of, 5:415
risk-free return, capital market line and,
4:393–395
risk governance, 4:279–286
defined, 4:273
for enterprises, 4:279–281
estimating risk tolerance level, 4:281–283
example, 4:285–286
with risk budgeting, 4:283–285
risk management process, 4:271–279
benefits from, 4:278
for enterprises, 4:275–277
framework for, 4:273–279
good vs. bad, 4:272–273
for individuals, 4:277
risk exposure in, 4:271–272
risk modification methods, 4:301–309
acceptance of risk, 4:303
example, 4:308–309
prevention and avoidance of risk,
4:301–302
selecting, 4:307–308
shifting of risk, 4:305–307
transfer of risk, 4:303–305
solutions to problems, 4:315–316
systems, 6:174
Risk Management Association, 3:330
risk management framework, 4:273–279
risk managers, 5:6
risk mitigation, 4:274
risk modification, 4:301–309
acceptance of risk, 4:303
example, 4:308–309
prevention and avoidance of risk,
4:301–302
selecting, 4:307–308
shifting of risk, 4:305–307
transfer of risk, 4:303–305
risk monitoring,
4:301–309
risk profile
investment suitability for, 4:301–302
risk premium(s)
asset, 4:242
bond yield plus risk premium
approach, 4:90
default, 1:303, 492–493
defined, 1:619; 4:337
equity, 4:85–88
expected, 4:333
historical equity risk premium
approach, 4:86–88
for inflation, 2:267
for real returns, 4:328
and risk aversion of investors, 6:63
risk profile
investment suitability for, 1:118, 120
understanding, 1:115
risk–return tradeoff, 4:337–338
and adding assets to portfolios, 4:361
and investing in portfolios vs. equities,
4:236–238
measures of, 6:204–205
for strategic asset allocation, 4:459
for traditional and alternative
investments, 6:156–157
risk-seeking investors, 4:341–342; 6:63
risk shifting, 4:341–342
risk tolerance, 4:281–283
defined, 4:342
in enterprise risk management, 4:279
and equity ownership, 5:154–155
on investment policy statements, 4:443–4:445
in portfolio management, 4:248
and shareholder–manager relationships, 4:111
and shareholder vs. creditor interests, 4:13
risk transfer, 4:303–305
risk assets
combining risk-free assets with, 4:389–392
covariance and correlation of risks, 4:351–353
efficient frontier of, 4:365
importance of correlation of risks in portfolio, 4:356
portfolio return for, 4:350
portfolio risk with, 4:350–356
pricing, 6:64
relationship of risk and return, 4:353–355
utility theory and selection of, 4:347–350
riskier portfolios
insurance for, 4:361
optimal risky portfolio and capital market line, 4:394
and homogeneity of expectations, 4:391–392
selection for, 4:387–388
Rite Aid Corporation, 4:92
Ritter, Jay, 4:102
rivalries, 5:205, 608
RMBS. see residential mortgage-backed securities
ROA. see return on assets
“A Roadmap for Convergence between IFRSs and US GAAP” (IASC/ FASB), 4:257
Robeco Boston Partners Small Cap Value Fund II, 1:431
Robert Wood Johnson Foundation, 4:245
Robinson, Joan, 2:61
Robinson, Thomas, 4:80n.5, 80n.7
Robust (term), 1:627
Roche Group, 3:182
Roche Holding AG, 2:101; 5:189
Rockwell Automation, 1:692–693
ROC oscillator. see rate of change oscillator
Rodman and Renshaw, 1:683
ROE. see return on equity
rogue traders, 4:290
ROIC. see return on invested capital
Rolex, 2:94
rollover, of futures, 5:102
rollover risk, 5:373
roll yield (convenience yield), 6:64–65, 199
Romania, 2:279; 5:96
Ross, Stephen, 4:427
row crops, 6:189
Roxburgh, Charles, 5:346n.1
Roy, A. D., 1:547n.25
Royal Dutch Shell PLC
as commodity-exposed company, 6:195
concentration ratio, 2:103
decomposition of ROE, 3:367
long-term debt and lease disclosure, 3:614–619
Royal Numico N. V., 3:378
Roy’s safety-first rule, 1:547–549
RPI. see Retail Price Index
ROIC. see relative strength index
RTAs. see regional trading agreements
rubles, Russian, 2:393
Rule 10b-5 (SEC), 5:122n.10
Rule 14A (SEC), 3:110
Rule 14A ADRs, 5:168
Rule of 72, 1:330n.9
Rules of Procedure. see Bylaws and Rules of Procedure for Professional Conduct
“rules of thumb,” 6:183n.29
rumors, addressing, 1:134–135
running yield, 5:302
runs test, 1:649
rupees, Indian, 2:393
Russell 2000 Index, 1:442; 5:92
Russell 3000 Index
as broad market index, 5:95
reconstitution of, 5:92
Russell Global Sectors (RGS) classification, 5:189, 190, 192
Russell Investments, 5:192
Russia
and Asian financial crisis, 2:335
exchange rate regime, 2:428
foreign bonds, 5:311
GIPS country sponsor, 1:229
import quotas, 2:351
MSCI multi-market index, 5:96
pension fund investment restrictions, 4:451
Russia-cable, 2:393
RVPL. see unrealized multiple
RWE, 1:421
S
S-1 registration statements, 3:109–110
SAA. see strategic asset allocation
SAC Capital, 1:6
SAFE Investment Company, 4:247
safety-first risk, 6:205
safety-first rules, 1:547–549
safety projects, capital budgeting for, 4:45
safety stock, of inventory, 4:209
Safeway, Inc., 3:235–236
Saint-Gobain, 1:421
Saks Incorporated, 1:411
sale(s)
of assets, 5:635
available-for-sale securities, 3:200, 237–239
comparable sales approach to real estate valuation, 6:191
comparable store sales ratio, 3:371, 372
and consumer spending, 2:205
cost of adjusting, with LIFO reserve, 3:407–408
and inflation, 3:405–406
and inventory valuation method, 3:396, 400–402
in perpetual vs. periodic inventory systems, 3:402–404
credit, 3:674–675
days of sales outstanding, 3:341, 344–345, 690
final, 2:203
and finished goods inventory, 3:427–428
held-for-sale assets, 3:497
on income statements, 3:149n.4
installment, 3:162–163
inventory–sales ratio, 2:203–204, 237
long and short, 5:50, 123
of long-lived assets, 3:288, 497–498
manufacturing, 2:237
one-time, 3:692
price-to-sales ratio, 3:368, 369; 5:263, 267–268
repeat sales indices, 6:189, 190
return on (see net profit margin)
same store sales ratio, 3:371, 372
trade, 2:237; 6:180–181
sales and purchases of non-produced, non-financial assets sub-account, BOP, 2:364
sales per square meter (sales per square foot) ratio, 3:372
sales pressure, 1:62
sales returns and allowances, 3:44
sales risk, 4:91, 124–125
sales-type leases
defined, 3:530, 620
financial statement impact of, 3:530–531, 623–624
US GAAP on, 3:619, 620
salvage value, 3:175
SAMA Foreign Holdings, 4:247
same store sales ratio, 3:371, 372
sample excess kurtosis, 1:451–454
sample mean, 1:403–405, 582n.4
distribution of, 1:582–585
as point estimator, 1:585, 586
standard error of, 1:582–583
samples
defined, 1:387, 576
dependent, 1:638–642
independent, 1:633–638
reasons for taking, 1:576
in statistics, 1:437
sample selection bias, 1:598–599, 624
sample size
and estimates of population mean, 1:593–595
and sampling distribution, 1:586–587
sample skewness, 1:447–448
sample standard deviation, 1:433–435; 4:331
sample statistic, 1:387, 576–578
sample variance, 1:432–433
calculating, 1:433–435
as point estimator, 1:586
I-84

Level I Cumulative Index

sampling, 1:575–614
about, 1:576
biases, 1:595–601
data-mining bias, 1:595–598
in investment research, 1:600–601
look-ahead bias, 1:599, 600
sample selection bias, 1:598–599, 624
survivorship, 1:598, 600
survivorship bias, 1:624
time-period bias, 1:599, 601, 624
and central limit theorem, 1:582–585
distribution of sample mean, 1:582–585
estimates of population mean, 1:585–595
confidence intervals, 1:587–592
point estimators, 1:585–587
sample size, 1:593–595
practice problems, 1:604–608
simple random, 1:576–578
solutions to problems, 1:609–614
stratified random, 1:578–579
of time-series and cross-sectional data, 1:579–581
sampling biases, 1:595–601
data-mining bias, 1:595–598
in investment research, 1:600–601
look-ahead bias, 1:599, 600
sample selection bias, 1:598–599, 624
survivorship, 1:598, 600
survivorship bias, 1:624
time-period bias, 1:599, 601, 624
sampling distribution, 1:578, 586
sampling error, 1:577–578
sampling plans, 1:577
Sampo, 4:449–450
Sam’s Club, 1:402
Samsung Electronics Co. Ltd., 5:209, 304
Samurai bonds, 5:311
sanctions, 1:34, 39
Sandoz, 5:209
San Marino, 2:428
Sanofi, 1:422
Sanofi-aventis S.A., 5:189
Santander UK plc, 5:304
SAP Group
accounts receivable, 3:219, 220
balance sheet components, 3:213–214
common-size analysis, 3:249
current assets, 3:217–218
current liabilities, 3:225
defered revenue, 3:226–228
defered tax assets, 3:224
defered tax liabilities, 3:241
equity, 3:243–244
financial assets, 3:239
goodwill, 3:236
inventories, 3:221
marketable securities, 3:219
market capitalization, 1:422
non-current assets, 3:228–229
non-current liabilities, 3:239–240
auditing standards, 3:27
in history of corporate governance, 4:7
internal control systems requirements, 3:29–30
and SEC authority, 3:108
share prices and control deficiency disclosures, 1:631–633
SASB. see Sustainability Accounting Standards Board
SATC curve, see short-run average total cost curve
Satyam Computer Services, 1:6
Saudi Arabia
exchange rate regime, 2:428
exchange rate targeting, 2:286
IFRS adoption, 3:114
MSCI multi-market index, 5:96
Saudia Arabian Monetary Agency, 3:114
Savage, Sam, 1:555
saving
household, 2:130, 133
marginal propensity to save, 2:135
rate of return for, 5:12
and trade balance, 2:436–437
using financial system for, 5:7–8
wealth effect on, 2:148
saving—investment differential, 2:137–139
saving rate, household, 2:130, 148, 205
Say, J. B., 2:209
say on pay, 4:18
Say’s law, 2:209
scale
chart, 1:680–681
as credit analysis factor, 3:723
discomeonies of, 2:44–47
economies of, 2:44–47
and profit maximization for firms, 2:43–48
project, 4:58–59
scaling down, 2:44
scaling up, 2:44
Scania AB, 3:18
scenario analysis (scenario testing)
forecasts from, 3:380
sufficient, 1:155
and VaR, 1:549; 4:299; 6:205
scenario loss, 4:284
schedules
accounts receivable aging, 4:206–207
amortization, 5:483–484
call, 5:328
demand, 2:67–69
fee, 1:236, 263
investment opportunity, 4:78
marginal cost of capital, 4:98–101
short-run cost, 2:76
supplementary, 3:24–26
Schulmberger, 5:219–221
Schneider Electric, 1:422
Schumpeter, Joseph A., 2:79, 209–210
Schwab, Charles M., 2:92
SCL. see security characteristic line
scope paragraph, of audit report, 3:28
screening, of equity investments, 3:726–730
scrip dividend schemes, 4:154
SDR. see special drawing right
Sears, Roebuck and Co., 1:411; 3:667
short selling, 3:50
seasoned offering, 5:50
SEC. see US Securities and Exchange Commission
secondary funds, 1:245, 267
secondary markets
bond, 5:357, 362–365
security, 5:53–58
defined, 5:15
execution mechanisms, 5:54–57
market information systems, 5:58
and primary markets, 5:50, 53
trading sessions on, 5:54
secondary offerings, 1:714
secondary precedence rules, 5:55
secondary research, 1:151–152
secondary sales, of private equity, 6:181
secondary sources of liquidity, 4:183–184
second-degree price discrimination, 2:99
second lien debt, 5:92
second-order conditions, for profit maximization, 2:30
second-order risk, 4:298n.28
sector ETFs, 4:260
sector indices, 5:97
sectors, economic. see economic sectors
secured bonds, 5:305, 479
secured debt, 5:591, 592
securities. see also specific types of securities
asset-backed, 5:469–521
about, 5:469–470
collateralized debt obligations, 5:508–511
commercial mortgage-backed securities, 5:499–504
creation of, 5:31–32
economic benefits of securitization, 5:470–472
non-mortgage asset-backed securities, 5:504–508
as pooled investments, 5:19
practice problems, 5:515–518
residential mortgage-backed securities, 5:486–499
residential mortgage loans, 5:481–486
securitization process, 5:470–481
solutions to problems, 5:519–521
dealing, 3:267
defined, 5:16–17
description of, 1:165–166
in markets, 5:16–19
for security market indices, 5:82–83
selection of, 4:421–422, 466
short positions in, 5:39–41
trading, 3:200, 267
valuation of, 4:78–80
Securities Act (1933), 3:108; 4:262;
6158n.14
Securities and Exchange Board of India, 3:107n.9
Securities and Exchange Commission (Brazil), 3:103
Securities and Futures Commission, 541
Securities Exchange Act (1934), 1:673;
3:108
Securities Industry and Financial Markets Association (SIFMA), 5:489
Securities Offerings Registration Statement, 3:108
securitization, 5:470–481
shares. see also earnings per share (EPS) (continued)
dual listing of, 5:164–165
global registered, 5:168
no par, 3:242
ordinary, 3:186
preference (preferred), 5:159–161
callable, 5:160, 171, 252
common vs., 5:17–18
convertible, 5:161
cost of, 4:83–84
cumulative, 5:160, 171
diluted EPS for company with, 3:188–190
fixed rate perpetual, 4:83
non-callable, non-convertible
perpetual, 5:252–253
non-cumulative, 5:160
non-participating, 5:160
in owners’ equity, 3:242
retractable, 5:160
retracting, 5:160
risk of, 5:171
valuation of, 5:251–254
small-cap, 5:121, 133
treasury, 3:242; 4:163
value of, for three-year investment horizon, 5:249
Sharpe, 4:452
Sharpe, William, 1:427, 441; 4:242, 409
Sharpe ratios, 1:441–444
calculating, 1:580–581
of commodities, 6:196–197
confidence interval for population mean, 5:589–590, 592
and downside risks, 6:156–157
evaluating new assets with, 4:361
formulas for, 1:441–443
and portfolio performance, 4:416
as risk–return measure, 6:204
shifting interest mechanism, 5:499
Shiller, Robert, 1:671
shipping, financial reporting quality and, 3:672
shoe leather costs, 2:274
short (term), 6:7
short bias strategies, for hedge funds, 6:164
shortfall risk, 1:547–549; 6:205
short hedge fund strategies, 4:262
short interest, 1:709–710
short positions, 5:39–41; 6:41, 47
short rebate rates, 5:40
short-run aggregate supply, 2:153–154
business taxes and subsidies, 2:154
defined, 2:144–145
exchange rate, 2:154
expectations about future prices, 2:154
input prices, 2:154
nominal wages, 2:153
short-run aggregate supply (SRAS)
curve, 2:144–145, 153–154
short-run average total cost (SATC) curve, 2:44, 45
short-run cost curves
average total cost curve, 2:44, 45
profit maximization for firms on, 2:43–44
time frame for, 2:43
total cost curve, 2:43–44
short-run cost schedule, in perfect competition, 2:76
short-run demand, elasticity of, 2:12
short-run equilibrium, in perfect competition, 2:77
short-run marginal cost (SMC), 2:30, 36–37
short-run total cost (STC) curve, 2:43–44
short selling
clearing instructions for, 5:50
defined, 1:476n.2; 4:410n.4
and limits to arbitrage, 6:70
as option strategy, 6:121–123
restrictions on, 5:123
using puts vs., 6:93
short-term borrowing, 4:193
short-term cash flows, 4:191–192
cash forecasting systems, 4:192
identifying typical cash flows, 4:191–192
minimum cash balances, 4:191
short-term financing, 4:215–220
asset-based loans, 4:218
borrowing approaches, 4:217–218
costs of borrowing for, 4:219–220
sources of, 4:215–217
short-term funding for banks, 5:382–388
recherche and reverse repurchase agreements, 5:384–387
retail deposits, 5:383
wholesale funds, 5:383–384
short-term funds management, 4:193–200
evaluating, 4:200
investment instruments, 4:194–197
strategies for, 4:197–200
short-term investment portfolio reports, 4:200
short-term investments, 4:194–197
examples, 4:194–195
investment risks, 4:196–197
managing cash positions with, 4:193
yields of, 4:195–196
short-term trading index (TRIN), 1:710–712
should (term), 1:267
shutdown analysis, 2:28–43
break-even analysis, 2:38–41
economic vs. accounting cost, 2:28
interaction of costs and output, 2:31–35
marginal revenue, marginal cost, and profit maximization, 2:29–30
profit maximization, break-even, and shutdown points, 2:36–37
revenue under perfect vs. imperfect competition, 2:35–36
shutdown decision, 2:39–40
shutdown point, 2:36–37, 40
SI. see sustainable investing
Sibor. see Singapore interbank offered rate
SIC system. see Standard Industrial Classification system
Siegel, Jeremy, 4:86n.18
Siemens, 1:422
SIFMA, see Securities Industry and Financial Markets Association
signal line, MACD oscillator, 1:706
significant cash flows
Composite Construction (GIPS Section I.3), 1:235
defined, 1:267
Disclosure (GIPS Section I.4), 1:238
SI-IRR. see since inception internal rates of return
similar companies, 5:189–191
simple capital structures, 3:186
simple interest, 1:304
simple random sample, 1:577
simple random sampling, 1:576–578
simple yield, 5:419
simulated results, 1:123–124
simulations, 3:380
back, 1:560–561
historical, 1:560–561
Monte Carlo, 1:555–561
of capital expenditures, 1:583–584
historical simulation vs., 1:560–561
number of trials for, 1:557
potential gains from market timing, 1:558–560
process, 1:556–557
random observations in, 1:557–558
for risk assessment, 3:722
simulation trials, 1:556
simultaneous dissemination, 1:109
since inception (term), 1:267
since inception distributions, 1:247
since inception internal rates of return (SI-IRR)
defined, 1:267
gross-of-fees, 1:243, 247
net-of-fees, 1:243, 247
Private Equity (GIPS Section I.7), 1:245, 247
Real Estate (GIPS Section I.6), 1:243
since inception paid-in-capital, 1:247
Singapore
Asian financial crisis, 2:335
cumulative voting rules, 4:16
discipline for financial reporting quality, 3:662
effects of global recession, 2:161, 162
exchange rate regime, 2:429
external trade sector, 2:207
GIPS country sponsor, 1:229
IFRS adoption, 3:114
mean and standard deviation of stock returns, 1:440, 441
in MSCI EAFE, 1:404
MSCI multi-market index, 5:96
share repurchases, 4:163
sovereign ratings, 5:366
Singapore dollar, 2:393
Singapore interbank offered rate (Sibor), 5:299, 351
Singapore Stock Exchange, 5:29, 167
Singha Co., 2:84
single cash flow
future value, 1:304–312
with continuous compounding, 1:310–311
frequency of compounding, 1:308–310
with interim cash reinvested at same rate, 1:305–306
for lump sum, 1:307–308
stated and effective rates for, 1:311–312
without interim cash, 1:306
present value, 1:315–318
finding, 1:315–317
frequency of compounding, 1:317–318
for future lump sum, 1:315–317
for lump sum, 1:315–317
single-factor models of beta, limitations of, 4:426
single-index models for beta, 4:404. see also capital asset pricing model (CAPM)
calculation and interpretation of beta with, 4:405–406
decomposition of total risk for, 4:404
defined, 4:403
single mean hypothesis tests, 1:626–633
effect of disclosures on share prices, 1:631–633
and payments of receivables, 1:629–630
and risk/returns of mutual funds, 1:628–629
single monthly mortality (SMM) rate, 5:488–490
single-period models of beta, limitations of, 4:426
single-period returns, for security market indices, 5:79–81
single price auctions, 5:54
single-step format, for income
single price auctions, 5:629–633
single-price auctions, 5:627–631
situational influences, 1:12–13, 21–22
SIX Swiss Stock Exchange, 3:106, 113
size effect, 5:133
skewness, 1:444–450
of binomial distribution of discrete random variables, 1:531
defined, 1:447
as investment characteristic, 4:338–339
of mutual funds, 1:448–450
of normal distribution, 1:542
sample, 1:447–448
skewed distributions, 1:444–447
of S&P 500, 1:448
Skilling, Jeffery K., 1:13
SLASX fund. see Selected American Shares fund
Slovak Republic, 2:354n.18, 428
Slovenia, 2:354n.18, 428; 5:96
Small, Medium, and Micro Enterprises (SMME), 3:564
small-capitalization stocks, beta adjustments for, 4:91
small-cap shares, 5:121, 133
small country (term), 2:348
small-denomination negotiable CDs, 5:384
SMA portfolios. see Wrap Fee/SMA Portfolios (GIPS Section I.8)
SMAs. see separately managed accounts
SMC. see short-run marginal cost
Smith, Adam, 2:346
Smith, Cliford W., 4:201n.5
Smith, Donald J., 5:537n.3, 556n.6
Smith & Nephew, 5:209, 213
Smithsonian Agreements, 2:427
SML. see security market line
SMME. see Small, Medium, and Micro Enterprises
SMM rate. see single monthly mortality rate
smoothing techniques, for beta, 4:91
social influences
in industry analysis, 5:203, 226–227
and industry life-cycle, 5:217
in strategic analysis, 5:220
social infrastructure assets, 6:200
socially responsible investing (SRI), 4:36–37, 452–453
Socially Responsible Investment (SRI) Composite, 1:290–291
social media
disclosure of confidential information on
and duties to employer, 1:132
limited disclosures on, 1:113
and material nonpublic information, 1:83
misrepresentation on, 1:69
retention of information on, 1:171
and stakeholder relationships, 4:27
social policies, taxes and, 2:305
Société Française des Analystes Financiers, 1:228
Société Générale, 1:422
society, benefit of ethics to, 1:36
soft commissions, 1:100
“soft” costs, 6:192
soft dollars, 1:100
soft hurdle rate, 6:166
software, GIPS-compliant
software development costs, 3:468, 477–480
solicitation, of former clients, 1:133–138
Solow, Robert, 2:171
solvency
defined, 3:8, 246, 352, 627
of non-current liabilities, 3:627–631
solvency ratios, 3:352–356
calculation, 3:353–354
in company analysis, 5:231
defined, 3:254, 340, 353–354, 628
evaluation, 3:355–356, 629–631
interpretation, 3:354–356
leverage/coverage ratios, 3:628–631
as risk metrics, 4:300
solvency risk, 4:291, 293
Sony Corporation, 3:597–599, 693
Sony Electronics, 5:209, 313, 314
Sortino ratio, 6:205
Sotheby’s, 5:199
source country, FDI, 2:333
South Africa commodities and economy of, 1:720
equity risk premiums, 4:87
exchange rate regime, 2:429
executive remuneration plans, 4:18
exports, 2:329
GIPS country sponsor, 1:229
IFRS adoption, 3:115
inflation-linked bonds, 5:324
inflation targeting, 2:279
MSCI multi-market index, 5:96
returns on bonds and bills, 5:152–153
on equities, 5:152–153
real equity returns, 1:397
sovereign bonds, 5:368
turnover, 3:149n.4
South Africa, rand, 2:393
South America, 3:661–662; 5:471. see also specific countries
Southeast Asia, 2:360–361. see also specific countries
Southern Cone Common Market (MERCOSUR), 2:354
South Korea
Asian financial crisis, 2:335
business investment, 2:173
coefficient of variation, 1:441
disinflation, 2:223
domestic and international debt securities, 5:113
effects of global recession, 2:162
exchange rate regime, 2:429, 433
foreign bonds, 5:311
as GIPS country sponsor, 1:229
government spending, 2:125
IFRS adoption, 3:114
inflation-linked bonds, 5:324
inflation targeting, 2:279, 281
international investment, 5:164
labor productivity, 2:177
mean and standard deviation of stock returns, 1:440
MSCI multi-market index, 5:96
national debt, 2:301
natural resources, 2:174
residential mortgage loans, 5:482, 483
risk tolerance and equity ownership, 5:154–155
securities backed by quasi-government entities, 5:486
share repurchases, 4:163
underground economy, 2:120
South Korean won, 2:393
sovereign bonds, 5:365–369
credit quality, 5:366–367
legal issuers, 5:303–304
names of, 5:365–366
sources of repayment, 5:304
types, 5:367–368
sovereign debt, 5:641–646
flexibility and performance profile, 5:643–644
political and economic profile, 5:643
in Portugal, 5:645–646
sovereign debt defaults, 5:641–642
sovereign governments, 5:297, 471
sovereignty, regional trade agreements and, 2:357
sovereign wealth funds (SWFs), 2:406; 4:247; 5:356
sovereign yield spread, 4:97
SOX. see Sarbanes–Oxley Act (2002)
S&P. see Standard & Poor’s Corporation
S&P 500 Index
Arms index, 1:710–711
as benchmark, 4:447
CBOE Volatility Index, 1:708
Chebyshev’s inequality for, 1:438–439
cumulative−size analysis of, 3:196–197, 250–251
covariance patterns, 4:239–241
consensus current P/E, 1:408–409
correlations of stocks, 4:358, 406
cumulative relative frequency and relative frequency of, 1:400–401 and data mining, 1:597
distribution of annual returns, 1:460
diversification with stocks, 4:422–423
earnings, 2:392
equity market returns, 1:435
expected value from, 1:415
frequency distribution for holding period returns, 1:390–396
frequency polygon, 1:399–400
histogram, 1:398–399, 402
implied volatility and, 6:41
as indicator, 1:576
intermarket analysis, 1:718–720
as leading indicator, 2:236, 238
margin debit vs., 1:709
as market index, 4:392
as market proxy, 4:393–395
mean returns on, 1:634–635
modal interval, 1:410
number of securities in, 5:82
portfolio expected return and variance of return, 1:494, 495, 498, 499
private equity returns vs., 6:181–182
as proxy for market portfolio, 5:94
range, 1:427
relative strength analysis, 1:682, 683
reported returns, 4:319
return and risk of two-asset portfolio, 4:332–333
returns for Enron vs., 4:234–235
securities selection for, 5:83
skewness and kurtosis, 1:448
and SPDR S&P 500, 1:442, 640
tail risk with, 4:289
volatility of, 6:89
weighted averages on, 1:414
Spain
bonds
bonds outstanding, 5:352, 358
foreign, 5:311
sovereign, 5:366, 367
business investment, 2:173
cumulative voting rules, 4:16
disinflation, 2:223
domestic and international debt securities, 5:313
equity risk premiums, 4:87
EU membership, 2:354n.18
exchange rate regime, 2:428
GIPS country sponsor, 1:229
gold standard for, 2:426n.11
government spending, 2:126
Greek fiscal crisis 2010, 2:357, 358
inflation targeting, 2:279
labor productivity, 2:177
MSCI multi-market index, 5:96
residential mortgage loans, 5:482, 483
returns on bonds, bills, and equities, 5:153
real equity returns, 1:397
total returns, 1:404, 407
underground economy, 2:120
wealth effect, 2:148
SpArtan 500 Index fund, 4:415–416
S&P/ASX 200 Index, 1:440
S&P. see Standard & Poor’s Corporation
SPCs. see special purpose companies
S&P Developed Ex-US BMI Energy Sector Index, 5:104
SPDR Gold Trust ETF, 6:195
SPDRs. see Standard & Poor’s Depository Receipts
SPDR S&P 500, 1:442, 640–642
SPDR® S&P Energy Sector Exchange-Traded Fund, 5:104
Spearman rank correlation coefficient, 1:649–651
special cash dividends, 4:154–156
special drawing right (SDR), 2:379n.29
specialization, international trade and, 2:335
Specialized Consumer Services sub-industry, 5:199
special purpose companies (SPCs), 5:304, 473
special purpose entities (SPEs) and bankruptcy, 5:479–481
defined, 5:31, 304, 473
obligations of, 5:304
as party to securitization, 5:474
role of, 5:478–481
as securitizers, 5:31–32
special purpose vehicles (SPVs) as financial intermediaries, 5:31–32
legal obligation of, 5:304
in securitization transaction, 5:473
special situations strategies, for hedge funds, 6:163
specific identification method of inventory valuation, 3:172, 222, 399–402
Spectrem Group, 6:153
speculation, 2:399, 6:21, 42–43
speculative demand for money, 2:263
speculative money balances, 2:263
speculators in commodities market, 6:193–194
in energy markets, 6:43n.20
in exchange-traded derivatives market, 6:10–11
forward contracts for, 6:17
gambling by, 6:43
spending
business, 2:149, 198
capital, 2:201–203, 306
consumer, 2:149, 198, 204–206
consumption, 2:134–135
government, 2:125–126
and aggregate demand, 2:133–134, 151
current, 2:303
and fiscal policy, 2:149
and taxes, 2:306–307
investment, 2:135–136, 142–143
public sector, 2:255
SPEs. see special purpose entities
S&P/GSCI Commodity Index, 5:101
6:196–197
spillover effect, of education, 2:172
spin-offs, 3:498–499
split coupon bonds, 5:323
S&P/MSCI Global Industrial Classification System. see Global Industry Classification Standard (GICS)
spur to deposits, 5:166
spot assets, pricing, 6:66
spot commodities markets, 5:25, 26
spot contracts, 5:20
spot currency transactions, 5:20
spot rate, 5:430–431
spot exchange rates, 2:402–404, 420–422, 5:20
spot rates, 5:10, 15, 6:5
spot prices, 6:5
for commodities, 6:197, 200
and futures price, 6:40–41
spot rates, 5:407–409
spot transactions, in FX market, 2:399
spread(s)
benchmarks, 5:438
and benchmark yield, 5:570–571
bid–offer, 5:363–364
credit, 5:415, 478–479, 603
excess, 5:307, 505
G−, 5:438, 441
interpolated, 5:439
option-adjusted, 4:82n.10, 84n.13;
5:441, 627
sovereign yield, 4:97
TED, 6:24
yield, 5:437–441
and benchmark rates, 5:437–439
and benchmark yield curve, 5:439–441
and credit risk/return, 5:626–633
required, 5:414
zero-volatility, 5:439, 441
spread over the benchmark, 5:414
spread risk, 5:589
spreadsheet modeling, 5:232
springs, 1:694
Sprint, 5:217
S&P/TSX Capped Income Trust Index, 5:225
S&P/TSX Composite Total Return Index, 1:312
SPVs. see special purpose vehicles
SRAS curve. see short-run aggregate supply curve
SRATC. see short-run average total cost curve
SRI. see socially responsible investing
SRI Composite. see Socially Responsible Investment Composite
Sri Lanka, 1:229, 5:96
SROs. see self-regulatory organizations
SSE. see Shanghai Stock Exchange
Composite Index
stable industries, 5:190, 191
stacked column graphs, 3:338
Standards of Professional Conduct

(continued)

independence and objectivity
[Standard I(B)], 1:40, 54–66
knowledge of the law [Standard I(A)],
1:40, 45–53
misconduct [Standard I(D)], 1:40, 77–80
misrepresentation [Standard I(C)],
1:40, 67–77
text of, 1:40
responsibilities as a CFA Institute
member or CFA candidate
[Standard VII], 1:189–200
conduct as participants in CFA
Institute programs [Standard
VII(A)], 1:32–33, 43, 189–193
reference to CFA Institute,
designation and Program
[Standard VII(B)], 1:43, 194–200
in Standards of Practice Handbook,
1:3, 29–33
text of, 1:43
solutions to problems, 1:211–218
and Standards of Practice Council,
1:34–35
in Standards of Practice Handbook,
1:3, 29–33
text of, 1:40–43
and values of CFA Institute, 1:39
standing limit orders,
3:60, 453
Stanford Financial Group, 1:6
Stanford University, 4:244
Stanley Gibbons,
6:202
Stanley Security Solutions, 5:199, 200
The Stanley Works, 5:199, 200
stated annual interest rate, 1:308
stated rates, for single cash flow,
1:311–312
“Statement in Support of Convergence
and Global Accounting Standards”
(SEC), 3:113
statement of cash flows. see cash flow
Statement of Cash Flows (ASC 230),
3:517n.32
Statement of Cash Flows (IAS 7),
3:517n.32, 685
statement of changes in equity
of Apple Inc., 3:245–246
and balance sheet, 3:244–246
defined, 3:12
in financial statement analysis, 3:20–22
statement of comprehensive income,
3:12, 16–20
Statement of Duties and Responsibilities,
1:39
Statement of Financial Accounting
Standards (SFAS)
Accounting for Income Taxes (SFAS
109), 3:550
Accounting for Leases (SFAS 13),
4:83n.11
Accounting for the Costs of Computer
Software to be Sold, Leased, or
Otherwise Marketed (SFAS 86),
3:477
Employers’ Accounting for Defined
Benefit Pension and Other
Postretirement Plans (SFAS 158),
3:711
statement of operations, 3:17, 570–571.
see also income statement
statement of owners’ equity, 3:68
Statement of Purpose, IPS, 4:441
statement of retained earnings, 3:48–49,
68
statements of account information,
1:101
statements of financial condition, 3:212.
see also balance sheets
statements of financial position, 3:12,
212. see also balance sheets
State Street, 5:209
Statistical Classification of Economic
Activities in the European Community
(NACE), 5:196
statistical discrepancies, in GDP, 2:128
statistical factor models, 4:403
statistical inference, 1:387, 585, 616
statistical significance, 1:622
statistical similarities, of similar
companies, 5:191
statistics, 1:385–469. see also test
statistic
about, 1:386
defined, 1:387, 576
dispersion, 1:426–444
absolute, 1:427
Chebyshev’s inequality, 1:437–439
coefficient of variation, 1:387
mean absolute deviation, 1:427–429
population variance and standard
deviation, 1:429–432
range, 1:427–429
sample variance and standard
deviation, 1:432–435
semivariance and semideviation,
1:436–437
Sharpe ratio, 1:441–444
frequency distributions, 1:389–397
construction of, 1:390–392, 396–397
cumulative measures, 1:399–401
defined, 1:389
and holding period formula, 1:390
and relative frequency, 1:392–396
graphic presentations of data,
1:397–401
frequency polygons and cumulative
distribution functions, 1:399–401
frequency polygons and cumulative
frequency distributions, 1:399–401
histograms, 1:398–399
kurtosis, 1:450–454
measurement scales, 1:888–389
identifying, 1:389
measures of central tendency, 1:402–420
arithmetic mean, 1:402–406
geometric mean, 1:415–419
harmonic mean, 1:419–420
median, 1:407–409
mode, 1:410–411
weighted mean, 1:412–415
nature of, 1:387
populations and samples, 1:387–388
practice problems, 1:459–465
quantiles, 1:420–426
calculating, 1:421–424
in investment practice, 1:424–426
types of, 1:420–424
sample, 1:387, 576–578
sampling distribution of, 1:578
solutions to problems, 1:466–469
symmetry, 1:444–450
using geometric and arithmetic means,
1:454–455
Statistics Canada, 2:117, 128, 129
Statistics New Zealand, 5:196
status, client, 1:126
statutory voting, 5:156
Staunton, Mike, 4:86
STC curve. see short-run total cost curve
Steiner, Fabian, 4:102
step-up coupon bonds, 5:322
Sterling exchange rate, 2:410
Sterling–yen exchange rate, 2:411
STMicroelectronics, 5:210
stochastic oscillator, 1:704–706
stock(s). see also equity securities
(equities); shares
arbitrage with, 6:47–49, 67, 68
buying, 6:121–123
common, 3:186, 242, 289
convertible common, 5:157
correlation of T-bills/bonds with, 4:359
defined, 4:333
downside frequencies, 6:157
downside risk, 5:220
employee stock options, 4:234–236,
360, 453
fixed rate perpetual preferred, 4:83
growth, 5:97
historical returns, 6:152
historical risk and correlation, 4:359
nominal returns, 4:333–336
ownership of, 1:175–177
performance of, 6:160–161
real returns, 4:335–336
returns on commodities vs., 6:196–197
returns on hedge funds vs., 6:165
risk and return, 4:333–334
Sharpe ratios and downside risk
measures, 6:156–157
short selling, 6:121–123
skewness of stock returns, 4:338–339
small-capitalization, 4:91
subdivisions and combinations of,
5:157
treasury stock method for diluted EPS,
3:191–193
value, 5:97, 133
volatility of, 6:152
stock analysts, 5:6
stock dividends, 4:156–157
Stock Exchange of Thailand (SET), 1:474
stock funds, 4:255
stock mutual funds, 4:258
stock options, 3:193; 6:36n.15
stock-out costs, 4:210
stock-out losses, 4:208
stock price(s)
and aggregate demand, 2:151
as Bernoulli random variable,
1:528–529
binomial model, 1:536–537
and control deficiency disclosures,
1:631–633
lognormal distribution for, 1:551–552
and net present value, 4:63–64
and stock splits, 4:158, 159

Level I Cumulative Index
stock splits, 4:158–160; 5:83, 85, 157
stop-buy orders, 5:48, 49
stop-loss orders, 5:48–49
stop orders, 5:48–49
storage
in derivatives pricing, 6:46–47
and holding of assets, 6:65
theory of, 6:199
Stowe, John, 4:80n.5, 80n.7
Straight from the Gut (Welsh), 3:693–694
straight-line depreciation method
and balance sheet, 3:678–681
bond premium/discount amortisation, 3:593
calculation, 3:482
defined, 3:481
depreciation/amortisation, 3:175–176
double-declining and units-of-
production methods vs., 3:482–486
straight voting, 4:12
Straits Times Index, 1:440
stranded assets, 4:38
strategic analysis, 4:274
strategic asset allocation (SAA), 4:457–465
for European charity, 4:467–469
objective of, 4:460–461
for private investor, 4:464–465
specifying asset classes for, 4:457–459
strategic default, 5:484
strategic groups, analysis of, 5:202–203
strategic industry analysis, 5:204–222
barriers to entry in, 5:206–208
example, 5:219–222
five forces framework, 5:205–206
industry capacity in, 5:211–212
industry concentration in, 5:208–211
industry life-cycle model in, 5:213–218
example, 5:217–218
limitations of, 5:217
stages of industry life cycle, 5:213–216
using, 5:216–217
market share stability in, 5:212–213
price competition in, 5:218–219
stratified random sampling, 1:578–579
Stratton Small-Cap Value Fund, 1:431
stratum, 1:578
Strauss-Kahn, Dominique, 2:378
street conversion, 5:418
stress testing, 1:549; 4:299; 6:205
stretching payables, 4:213
strike price, see exercise price
strip curve, 5:430
strong-form efficient markets, 5:128
structural budget deficit, 2:309
structural subordination, 5:600
structured finance CDOs, 5:509
structured finance sector, 5:347
structured financial instruments, 5:379–382
capital protected instruments, 5:380
leveraged instruments, 5:381
participation instruments, 5:380–381
yield enhancement instruments, 5:380
structured interest-only tranches, 5:493n.11
structured products, 5:379–380
structuring process, 5:492–493
Stryker, 5:213
Student's t-distribution. see t-
distribution
style indices, 5:97
sub-advisors
defined, 1:268
Disclosure (GIPS Section I.4), 1:237, 238
Fundamentals of Compliance (GIPS Section I.0), 1:232
selecting, 1:153, 160
Subaru, 2:82
subdivisions, of stock, 5:157
sub-indices, price, 2:227
subjective probability, 1:474
submanagers, 1:120, 156–157
subminuette, Elliott wave, 1:716
subordinated debt, 5:592–593
subordination, 5:306–307, 477, 499
subprime loans, 5:482
Subrahmanyam, Marti G., 1:636
Sub-Saharan Africa, 2:332, 356
subscription accounting, 3:183–184
subsidaries
captive finance, 4:201
high-yield credit analysis for,
5:638–639
of income statements, 3:17
of Nestlé, 5:159
restricted vs. unrestricted, 5:640
temporary differences on financial
statements for, 3:565
subsidies
export, 2:348, 351–353
in monopolies, 2:100
and short-run aggregate supply, 2:154, 156
substitutes
and cross-price elasticity of demand,
2:15, 16
in industry structure, 5:608
in perfect competition, 2:67, 69
in strategic analysis, 5:205
substitution, import, 3:434n.10
substitution bias, 2:224
substitution effects
on elasticity of demand, 2:12
Giffen and Veblen goods, 2:21
and law of demand, 2:18–19
normal and inferior goods, 2:19–23
in perfectly competitive markets, 2:65
with price decrease, 2:20–23
substitution risk, 5:680
suitability, 1:120–121
for entire portfolio, 1:118–119
for investor risk profile, 1:118, 120
Suitability [Standard III(C)], 1:114–121
application of the standard, 1:118–121
compliance procedures, 1:117–118
investment policy statements, 1:117
regular updates, 1:118
suitability test policies, 1:118
guidance, 1:114–117
addressing unsolicited trading
requests, 1:116–117
developing investment policies, 1:115
managing to indexes or mandates,
1:117
need for diversification, 1:116
understanding client's risk profile, 1:115
updating investment policies, 1:116
text of, 1:311, 114
suitability test policies, 1:118
summaries, attributing, 1:71
Summer Olympics (1980), 4:305n.36
sum of value added method, for GDP,
2:117–118, 128
Sunbeam
comparative growth information,
3:336–337
conditions promoting low-quality
financial reports, 3:660
departures from GAAP, 3:653
one-time sales in revenue, 3:692
sunk costs, 2:28; 4:47
superannuation funds, 5:542
supervision
detection as part of, 1:143–144
inadequate, 1:148–149
of research activities, 1:146–147,
149–150
system for, 1:143
of trading activities, 1:147
supervisors. see Responsibilities of
Supervisors [Standard IV(C)]
supervisory board, 4:10
supplementary information, 1:268;
3:11–12
supplementary prospectus, 5:474n.3
supplementary schedules, 3:24–26
suppliers
cash to, 3:284–285
contractual agreements with, 4:20
customer conflicts with, 4:13
power of, 5:205, 608
as stakeholders, 4:10
supply. see also demand and supply
analysis
aggregate and AS curve, 2:144–146
defined, 2:132
and global recession, 2:161–163
and imports/exports, 2:330–331
investment strategies for shifts in,
2:165–166
long-run, 2:144–146, 155–157
in perfectly competitive market, 2:77
in real business models, 2:214–215
shifts in, 2:146–147, 153–158
shifts in demand and, 2:166–169
short-run, 2:144–145, 153–154
and stagnation, 2:165–166
of commodities, 6:198
in company analysis, 5:230
elasticity of, 2:8
excess, 2:331
for fixed- vs. floating-rate debt, 5:350
money, 2:150
changes in, 2:264–266
and interest rates, 2:267
M2, 2:238, 239
real, 2:140–142
in monopolies, 2:95–96
in monopolistic competition, 2:81
in oligopolies, 2:90–91
in perfect competition, 2:72–73
and spread on corporate bonds, 5:627
supply chains, global, 2:335
supply curves
aggregate, 2:144–146, 153–158, 167–168
in monopolistic competition, 2:81
supply shock to inflation rate, 2:289
support, 1:685
support tranches, 5:495–497
supranational bonds, 5:370–371
supranational organizations, 5:297
surety bonds, 4:305; 5:307
surpluses
budget, 2:296
consumer
and alternative trade policies, 2:349, 352
in monopoly, 2:98–100
in perfect competition, 2:70–72
and tariffs, 2:349
in current account, 2:369, 371–373
of money, 2:231–232
producer, 2:349, 352
trade, 2:330
survey approach, for cost of equity, 4:88
Survey of Current Business (US Department of Commerce), 2:117
survivorship bias
for alternative investments, 6:151n.3
and back-testing, 3:728
and GIPS standards, 1:220
and hypothesis testing, 1:624
in investment research, 1:600
and performance of hedge funds, 5:103; 6:169
and sample selection bias, 1:598
sustainability
of capital markets, 1:36–37
of earnings, 3:644–646
Sustainability Accounting Standards Board (SASB), 4:37
sustainable, responsible, and impact investing (SRI), 4:36–37
sustainable growth, 2:169, 175–181
and fixed-income investments, 2:180–181
and labor productivity, 2:177–178
measures of, 2:178
rate of growth in potential GDP, 2:179–180
sustainable growth rate, 3:369, 371; 4:89
sustainable investing (SI), 4:36
sustainable securitization markets, 5:472
Sviluppo Mercato Fondo Pensione, 1:229
swap funding, 2:401–402
swap points, 2:418
swap rates, 2:418–422
swaps (swap contracts), 6:21–25
asset, 5:439
basis, 6:24
commodity, 6:195
in contract markets, 5:23–24
credit default
contracts for, 5:25
credit as underlying for, 6:37
as credit derivatives, 6:31–33
defined, 4:300n.32
as insurance contracts, 5:34
currency, 5:24; 6:23n.12, 37
defined, 6:21–22, 61
equity, 5:24; 6:36
FX, 2:401–402
index, 6:36
interest rate, 5:23–24; 6:22–23
long and short side of, 5:39
overnight indexed, 6:24
plain vanilla, 6:22–23, 37
pricing and valuation of, 6:82–85
return, 6:30
swarming, 2:79
Swaziland, 3:115
Sweden
banking supervision, 2:271
disinflation, 2:223
equity risk premiums, 4:87
exchange rate regime, 2:429
GIPS country sponsor, 1:229
government spending, 2:126
inflation-linked bonds, 5:324, 325
inflation targeting, 2:279, 281
labor productivity, 2:177
MSCI multi-market index, 5:96
returns
on bonds and bills, 5:152–153
on equities, 5:152–153
real equity returns, 1:397
total returns, 1:404, 408
risk tolerance and equity ownership, 5:154–155
share repurchases, 4:163
sovereign bonds, 5:367, 368
underground economy, 2:120
Swedish Financial Supervisory Authority, 2:271
Swedish krona, 2:393; 5:349
Swedish Society of Financial Analysts, 1:229
SWFs. see sovereign wealth funds
Swiss Bankers Association, 1:229
Swiss franc
currency code, 2:393
exchange rate quotes with, 2:410, 412
international bonds outstanding in, 5:349
as reserve currency, 5:19
Swiss GAAP FER, 3:106
Swiss National Bank, 2:405
Switzerland
banking supervision, 2:271
equity risk premiums, 4:87
exchange rate regime, 2:429
flotation costs, 4:102
foreign bonds, 5:312
GIPS country sponsor, 1:229
growth spillover, 2:356
IFRS adoption, 3:113
MSCI multi-market index, 5:96
pension fund investment restrictions, 4:451
regulatory authorities, 3:106
residential mortgage loans, 5:483
returns
on bonds, bills, and equities, 5:153
real equity returns, 1:397
total returns, 1:405, 408
risk tolerance and equity ownership, 5:155
sovereign bonds, 5:366, 367
symmetrical triangle pattern, 1:695
Symmetry, 1:444–450, 531
Synchrony Bank, 5:508
syndicated loans, 5:362, 372
syndicated offerings, 5:359
syndicates, 4:304–305
Syngenta, 3:130–131
synthetic CDOs, 5:509
synthetic leases, 5:513, 607
Syria, 2:428
systematic account reviews, 1:110
systematic risk, 4:400–402
for alternative investments, 6:155
and calculation of beta, 4:405–406
drivers of, 4:297
in Jensen’s alpha, 4:417
proxies for, 5:94
for single-index model of beta, 4:405
and strategic asset allocation, 4:456
in Treynor ratio, 4:416
systematic sampling, 1:577
systemic risk, 5:332; 6:32, 43–44
systems risk management, 6:174
T
T. Rowe Price Corporate Income Fund, 4:257–258
T. Rowe Price Equity Income fund geometric and arithmetic mean returns, 1:416–418
kurtosis, 1:452–454
range and mean absolute deviation, 1:428–429
sample variance and sample standard deviation, 1:434–435
Sharpe ratio, 1:443, 444
skewness of, 1:448–450
T. Rowe Price Small Cap Value Fund, 1:431
T + 1 settlement, 5:364
T + 2 settlement, 4:161n.11
T + 3 settlement, 4:161n.11
T206 investing Wagner baseball card, 6:202n.34
T-accounts, 3:76–92
tactical asset allocation, 4:465–466
Tai, Jackson, 5:161
tail events, 6:205
tail risk, 4:289–290
Taiwan
Asian financial crisis, 2:335
comparative advantage, 2:344–345
effects of global recession, 2:161, 162
globalization of production, 2:334
MSCI multi-market index, 5:96
Taiwonts, Semiconductor Manufacturing Company Ltd., 5:200, 201
takeover defenses
cross-shareholdings, 4:33
poison pills, 4:26
share repurchases, 4:164–166
takeover market, 4:26
takeovers, 4:12
taking a market, 5:46
tangible assets, 6:155, 201–202
Tankan Survey, 2:238, 240
Tanzania, 3:115
Target, 4:188–189, 210
target balance, 4:193
target capital structure, 4:76
target companies, for leveraged buyouts, 6:178–179
target independence, 2:280
target market, for security market indices, 5:82–83
target semidivision, 4:34, 437
target semivariance, 1:436, 437
target zone currency regimes, 2:428, 431
tariffs, 2:348–353
analysis of, 2:350–351
defined, 2:348
GATT, 2:374, 377
and quotas/VERs, 2:352–353
two-part tariff pricing, 2:99–100
taxable income, 3:550–555
taxable profit, accounting profit vs., 3:560–565
taxable temporary differences, in taxable/accounting profit, 3:561–564
tax-advantaged securities, 4:195
IASS assessments, 3:688
tax bases, 3:555–560
of assets, 3:556–557
and changes in tax rates, 3:559–560
defined, 3:551
of liabilities, 3:557–559
taxes
and aggregate demand, 2:136, 149, 151
attributes of tax policy, 2:303–304
capital gains, 4:154, 328
in CAPM assumptions, 4:410
and cost of capital, 4:75–76
current, 3:566–569
defered, 3:566–569, 575–578
direct, 2:303, 306
on dividend income, 4:328
and fiscal policy, 2:295–296, 304
and fixed-income securities, 5:314–316
and government spending, 2:306–307
income, 3:549–586
and accounting profit vs. taxable income, 3:550–555

cash for, 3:287
disclosure of tax information, 3:570–575
IFRS vs. US GAAP, 3:550, 575–578
practice problems, 3:580–584
presentation, 3:570–575
solutions to problems, 3:585–586
and taxable vs. accounting profit, 3:560–565
tax bases for, 3:555–560
unused tax losses and credits, 3:565–566
and income trusts in Canada, 5:225
indirect, 2:303, 305
and inventory method changes, 3:418
and IPSs, 4:451
in lease versus buy decision, 3:513
and LIFO method, 3:407
net tax rate, 2:306
on REITs, 6:152
reporting of depreciation methods, 3:487
and short-run aggregate supply, 2:154, 155
and social policies, 2:305
and yield-to-maturity, 5:429
tax-exempt bonds, 5:353
tax expense, 3:418, 551
tax loss carry forward, 3:551
IASS selling hypothesis, 5:131
tax rates, changes in, 3:559–560
IASS recognition, 3:560
IASS reform, 2:304
IASS risk, 4:289
Taylor, Owen, 1:678
T-bills, see US Treasury bills
T-bonds, see US Treasury bonds
TCs, see total costs
time distribution
TD Ameritrade Holding Corporation, 3:737–738
TD Bank, see Toronto-Dominion Bank

and confidence interval for population mean, 1:591–592
defined, 1:626–627
and estimation of normal sampling distribution, 1:589
normal distribution vs., 1:590–591
table, 1:734
Tech Data Corporation, 3:276–278
technical analysis, 1:669–730
defined, 1:670
Elliott Wave Theory, 1:715–718
fundamental vs., 1:672–674
implications of efficient market hypothesis for, 5:129
intermarket, 1:718–720
practice problems, 1:723–738
solutions to problems, 1:728–730
tools for, 1:674–715
chart patterns, 1:686–697
charts, 1:674–683
market cycles, 1:714–715
technical indicators, 1:697–714
trends, 1:683–686
and weak-form efficient market hypothesis, 5:122
technical indicators, 1:697–714
flow-of-funds, 1:710–714
Arms index, 1:710–712
margin debt, 1:712
market indicators, 1:713
mutual fund cash position, 1:712–713
new equity issuance, 1:713–714
secondary offerings, 1:714
momentum oscillators, 1:700–707
about, 1:700–702
MACD oscillator, 1:706–707
relative strength index, 1:702–704
ROC oscillator, 1:700–702
stochastic oscillator, 1:704–706
price-based, 1:697–700
Bollinger bands, 1:699–700
moving average, 1:697–699
sentiment, 1:707–710
statistical indices, 1:707–710

calculated statistical indices, 1:707–710
opinion polls, 1:707
technical model requirements, understanding, 1:160–161
technology and asset allocation, 3:426
and comparative advantage, 2:346
and economic growth, 2:171–174
in industry analysis, 5:203, 222–223
and industry life-cycle, 5:217
and labor productivity, 2:176
and long-term aggregate supply, 2:156
in strategic analysis, 5:221
and substitution risk, 5:608
Technology sector, 5:193
Teck Resources Ltd., 3:10–11
TED spread, 6:24
telecommunications industry, structure of, 5:217
Telecommunications sector, 5:193
Telefónica Group, 3:274–276
Telefónica S.A., 1:422, 5:192, 270–271
Teléfonos de México, S.A.B. DE C.V., 3:710–712
Tele Norte Leste Participações S.A., 3:710–712
telephone utilities, 2:96, 101
television broadcasting, 2:61
TeliaSonera AB, 4:155–156
Temasek Holdings, 4:247
temporary differences, in accounting/taxable profit, 3:550–564
deductible differences, 3:561–564
examples, 3:562–564
at initial recognition, 3:564
taxable differences, 3:561–564
temporary new accounts, 1:235, 268
temporary workers, use of, 2:220
10b-18 rule, 4:163
10-K, Form, see Form 10-K
tender offers, 4:26
tenor, 5:298, 434
TEPCO, see Tokyo Electric Power Company
terminal stock value (terminal value), 5:248–249, 258–259
Terminated Composites, see US Core Equity Composite
termination policies, 1:133
term-maturity structures, 5:376
term of repurchase agreement, 5:385
term repo, 5:385
terms of trade, 2:329–330
term structure

credit spreads, 5:415
of interest rates, 5:429–437, 564; 6:78
of risk free rates, 5:415
of yield volatility, 5:564–565
Tesco, 3:45–46, 5:360
Tesoro Público, 5:366
test statistic
acceptance region for, 1:622
calculating, 1:624–625
defined, 1:619–620
rejection point for, 1:622–624
rejection (critical) region for, 1:622
in tests concerning difference between variances, 1:644–645
in tests concerning value of population variance, 1:642
in tests of difference between population means, 1:634–638
in tests of mean differences, 1:639–642
in tests of single population mean, 1:627–630
Teva Pharmaceutical Industries, 5:209
Texas, 5:647
time to maturity, time to expiration, option pricing, and time-series pricing anomalies, time period(s), time intervals, chart.

I-94 Level I Cumulative Index

Timberland, investing in, time horizon

Thailand

Asian financial crisis, 2:335
beer industry, 2:83, 84
currency regime, 2:429
exchange rate targeting, 2:286
globalization of production, 2:334
IFRS adoption, 3:114
inflation targeting, 2:279
MSCI multi-market index, 5:96
non-domestic equity securities, 5:164
regular cash dividends, 4:153
Thaler, Richard, 5:132
Thatcher, Margaret, 2:268
thematic investing, 4:39
time of storage, 2:334
theory of the firm, 2:329
Thomson Reuters US Private Equity Performance Index (PEPI), 6:181–182

threat of entry, 5:205, 608
three-factor models for beta, 4:403
three-stage dividend discount model, 5:259

Tibor. see Tokyo interbank offered rate
tight fiscal policy, 2:313
tight monetary policy, 2:313
TIFS. see Treasury inflation-indexed securities
Timber Hill, 5:30
timberland, investing in, 6:185, 189
time on point and figure charts, 1:678
present value of cash flows at times other than t = 0, 1:324–325
time frame of decision and dissemination, 1:108–109
for market efficiency, 5:117
and performance calculation, 1:122–123
time horizon for cash forecasting, 4:192
for forward contracts, 6:74
for portfolio management, 4:248
and portfolio planning, 4:450–451
and risk tolerance, 4:443
time intervals, chart, 1:682
time period(s) and GIPS standards, 1:220
security index values over multiple, 5:81–82
time-period bias, 1:599, 601, 624
time-series data, 1:403–404, 579–581
time-series pricing anomalies, 5:130–132
time to expiration, option pricing and, 6:88–89
time-to-maturity, 5:547
timeliness, 5:478
time value decay, 6:90
time value of money (TMV), 1:301–355
5:398–409
cash flow additivity principle, 1:336
defined, 1:302
and discounted cash flows, 1:357
future value
equivalence of present and, 1:334–335
of series of cash flows, 1:313–314
of single cash flow, 1:304–312
and interest rates, 1:302–303
practice problems, 1:338–342
present value
equivalence of future and, 1:334–335
of series of cash flows, 1:318–326
of single cash flow, 1:315–318
and required rate of return, 6:63
solutions to problems, 1:343–355
solving problems for variables, 1:326–336
interest rates and growth rates, 1:327–329
number of periods, 1:329–330
size of annuity payments, 1:330–334
spot rates, 5:407–409
yield to maturity, 5:402–403
time value of options, 6:90
Time Warner, 1:692
time-weighted rate of return Calculation Methodology (GIPS Section I.2), 1:233
defined, 1:268
linked, 1:242
money-, vs., 1:370–372
for portfolios, 1:367–372
Real Estate (GIPS Section I.6), 1:242, 243
TIPS. see Treasury inflation-protected securities
titles, real estate, 6:185
TMV. see time value of money
T-notes. see Treasury notes
to-arrive contracts, 6:40–40

Tokyo Agreement, 5:646
Tokyo Agreement, 3:113
Tokyo Electric Power Company (TEPCO), 5:604
Tokyo Electron, 5:209
Tokyo interbank offered rate (Tibor), 5:351, 6:73–88
Tokyo Stock Exchange, 1:403; 6:9
as exchange, 5:29
information availability, 5:122
intermarket analysis, 1:718
ROC oscillator, 1:701
and TOPIX, 5:103
Tokyo Stock Exchange Group, 5:151, 152
Tokyo Stock Price Index (TOPIX) as benchmark, 4:443
estimating risk premium with, 4:86
features of, 5:103
number of securities in, 5:82
as proxy for market portfolio, 5:94
weighting of stocks on, 1:414
tolerance for leverage, 3:723
Tootsie Roll Industries, 4:157
top-down analysis, for security selection, 5:726
top-down approach to equity valuation, 5:244
top-down portfolio analysis, 4:249, 469
top down strategies, 6:162, 163
top heavy capital structure, 5:638
TOPIX. see Tokyo Stock Price Index
TORM A/S, 3:602–603
Toronto-Dominion Bank (TD Bank), 1:682, 710; 5:209
Tohiba Corporation, 3:323–325

total asset turnover, 3:342, 346
total comprehensive income, 3:199
total costs (TCs)
average with economies of scale, 2:45–46
interactions of other costs and output with, 2:31–35
in perfect competition vs. monopoly, 2:36–37
fixed, 2:31–35, 41–42
and other costs/output, 2:31–35
of production, 2:24
variable, 2:31–35, 41–42
total debt to total debt plus equity ratio, 3:376
total expenditure(s), and aggregate income, 2:133–140
and consumer surplus, 2:71–72
and own-price elasticity of demand, 2:13–14
total factor productivity (TFP), 2:170, 174
total firm assets defined, 1:268
 Disclosure (GIPS Section I.4), 1:236
Fundamentals of Compliance (GIPS Section I.0), 1:232
Presentation and Reporting (GIPS Section I.5), 1:239
Verification (GIPS Section IV), 1:257, 258

total fixed cost (TFC)
interactions of other costs and output with, 2:31–35
in shutdown analysis, 2:41–42

in total invested capital, 3:713n.4
total leverage, 4:136–139

in total liabilities-to-equity ratio, 3:413
in total market capitalization, 5:89

in total market value, ROE and, 5:175

in total probability rule, 3:450–451

in total product of labor, 2:25–28

in total return(s). see also holding period return (HPR)
Calculation Methodology (GIPS Section I.2), 1:233
defined, 1:268
for equity securities, 5:169–170
GIPS Advertising Guidelines (GIPS Section III), 1:255
for leveraged stock purchase, 5:42–43
for multiple periods, 5:81–82
Presentation and Reporting (GIPS Section I.5), 1:239
price vs., 5:79
Real Estate (GIPS Section I.6), 1:242
on real estate, 6:184
for single period, 5:80–81
for multiple periods, 5:81–82
value of, 5:79–81
total revenue, 6:30
in shutdown analysis, 2:41–42
in oligopoly, 2:86
under perfect and imperfect competition, 2:35–36
and price elasticity, 2:69–70
total risk
decomposition of, 4:404
in Sharpe ratio, 4:416
Total SA dividends, 4:162–163
Gordon growth model for, 5:255–257
market capitalization, 1:422
stock splits, 4:158
total value
and consumer surplus, 2:71
defined, 1:268
Private Equity (GIPS Section I.7), 1:247
Real Estate (GIPS Section I.6), 1:243
total variable cost (TVC)
interactions of other costs and output
with, 2:31–35
in shutdown analysis, 2:41–42
“toxic waste,” 5:32
Toyota Motor Corporation
financial reporting, 3:645–646
growth rate, 1:328–329
international trade, 2:82
method of comparables, 5:268
ROC oscillator, 1:701–702
similar companies to, 5:189
two-factor analysis, 5:209
TR. see total revenue
tracking error, 1:534; 4:442n.3
tracking risk, 4:442n.3
track record
as company fundamental, 5:609
of hedge funds, 6:173
tradable assets, 4:393
trade. see also international trade and alternative trade policies, 2:352
free, 2:330, 335–336
gains from, 2:341–344
inter-temporal, 2:369, 370
intra-industry, 2:335
terms of, 2:329–330
trade agreements
common markets, 2:354
economic unions, 2:354
export subsidies, 2:351–353
trading blocs, 2:354–358
trade allocation procedures, 1:109, 110
trade balance
absorption approach, 2:441–442
balance of trade deficit, 2:126, 330
in business cycles, 2:207–208
and capital account, 2:436
elasticities approach, 2:437–441
and GDP, 2:126–127
and saving/expenditures, 2:436–437
trade creation, 2:355
trade credit, 4:211, 212
trade date accounting, 1:233, 268
trade discounts, 4:213–214
trade diversion, 2:356
trade granting process, 4:202–203
trade organizations, 2:373–380
function and objectives, 2:378–380
International Monetary Fund, 2:374–376
World Bank Group, 2:376–377
World Trade Organization, 2:377–378
trade payables. see accounts payable
trade pricing rules, 5:56
trade protection, 2:330
trade receivables, 3:46, 219–221
trade restrictions, 2:348–361
capital restrictions, 2:358–361
quotas, 2:351–353
interests, 2:348–353
traders, rogue, 4:290
trade sales, 2:237; 6:180–181
trade sector, 2:126–127, 207–208
trade surplus, 2:330
trade-to-GDP ratio, 2:331–334
trading
alternative systems, 5:29–30
continuous trading markets, 5:54
on contract/secondary security markets, 5:54
contrarian trading strategies,
1:699–700
cost of, 4:340, 361
excessive, 1:104, 113
held for, 3:237
information-motivated, 5:10–12, 26
insider, 5:61, 122
multilateral facilities, 5:29–30
personal
and conflict of interest, 1:179
disclosure of, 1:185
limitations on, 1:186
and market manipulation, 1:93–94
priority of transactions for, 1:181
proprietary trading procedures, 1:87
regional trading agreements,
2:354–358
risk-arbitrage, 1:87
short-term trading index, 1:710–712
spot market, 5:10
supervising trading activities, 1:147
unsolicited requests for, 1:116–117
trading blocs, 2:354–358
trading expenses
Calculation Methodology (GIPS Section I.2), 1:234
defined, 1:268
Disclosure (GIPS Section I.4), 1:236
trading limits, 5:123
trading NAV, 6:172
trading securities, 3:200, 267
trading volume, 1:94
on charts, 1:681–682
and head and shoulders pattern, 1:688
trends in, 1:671
traditional bonds, ABSs vs., 5:297
traditional investment markets, 5:15
traditional investments, 6:150
integration of alternative investments
with, 6:157–158
Sharpe ratios for, 6:156
trailing twelve months (TTM) ratio, 3:330
training, compliance, 1:145
tranches
for asset-backed securities, 6:34
for collateralized debt obligations, 5:509
for collateralized mortgage obligations, 5:493–497
defined, 5:32
equity, 5:500
floating-rate, 5:497
loss severity and credit risk for,
5:589n.1
for mortgages, 6:187
planned amortization class, 5:495–497
residual, 5:500
sequential-pay, 5:493–495
structured interest-only, 5:493n.11
support (companion), 5:495–497
transaction allocation, 1:111–112
transaction-based manipulation, 1:93
transaction costs
with active portfolios, 4:422n.6
assumptions of CAPM about, 4:410
for borrowing, 5:9
with derivatives, 6:41, 70
and financial risks, 4:287–288
and market efficiency, 5:123
transaction expenses
defined, 1:269
Private Equity (GIPS Section I.7), 1:245, 246
Real Estate (GIPS Section I.6), 1:241, 242
transaction price, 3:167, 168
transactions
BOP, 2:361
new, 3:132
transactions-based indices (real estate), 6:189, 190
transactions money balances, 2:263
transactions motive, 4:208
transfer, risk, 4:303–305
transfer payments, 2:125, 302–303
transition probability, 1:536
Transocean, 1:695
transparency
corporate, 4:17
of exchange-traded derivatives market, 6:11
of futures market, 6:21
of inflation targeting, 2:281–283
of markets, 5:58
transportation assets, 6:200
travel expenses, 1:60–61, 63–64
travel funding, 1:59
Treasury bills, 1:303n.3, 375n.16; 4:333.
see also US Treasury bills; US Treasury bills (T-bills)
Treasury debt, 1:303
Treasury inflation-indexed securities (TIPS), 5:324
Treasury inflation-protected securities (TIPS), 2:226; 5:324, 326, 327
treasury shares (treasury stock), 3:242; 4:163

treasury stock method, 3:191–193
tree diagrams (binomial trees), 1:489–490, 536
trend analysis, 3:334–336
trends
recognizing, 1:683–686
in technical analysis, 1:672–673
Treynor, Jack, 4:242, 409
Treynor ratio, 4:416
trials, number of (for Monte Carlo simulation), 1:557
triangle patterns, 1:694–696
triangular arbitrage, 2:415
trimmed mean, 1:406n.14
TRIN, see short-term trading index
Trinidad & Tobago, 5:96
triple bottoms, 1:692–693
triple tops, 1:692–693
trough phase (business cycle), 2:196, 197
true yield, 5:418
true yield-to-maturity, 5:418–419
Trump Hotels & Casino Resorts, 3:648–649, 692
trust deeds, 5:303, 622
trustee agents, 5:475
trustees, 5:303, 475
trust law, 5:480
trust preferred securities, 5:592n.4
trust receipt agreements, 4:218
trusts, in securitization process, 5:474
Tsingtao Brewery, 3:709
TSX Group, 5:152
t-test, 1:626–630
nonparametric test vs., 1:648
risk/return characteristics of mutual fund, 1:628–629
and slowdown in payments of receivables, 1:629–630
and Spearman rank correlation, 1:650–651
and test statistic for difference between population means, 1:634–638
and test statistic for single population mean, 1:627–630
for test statistic for tests of mean difference, 1:639–642
z-test vs., 1:630, 633, 648
TTM ratio, see trailing twelve months ratio
Tunisia, 5:96
Turkey
business investment, 2:173
cumulative voting rules, 4:16
exchange rate regime, 2:429
IFRS adoption, 3:114
inflation-linked bonds, 5:324
inflation targeting, 2:279
labor productivity, 2:177
MSCI multi-market index, 5:96
sovereign bonds, 5:367
turn-of-the-month effect, 5:132
turn-of-the-year effect, 5:131
turnover
accounts receivable, 4:186
annual share, 1:424
asset, 3:342, 346, 508–510, 690
fixed asset turnover ratio
and average age of depreciable assets, 3:508–510
calculating, 3:342
interpreting, 3:346, 506
in FX market, 2:407–408
on income statements, 3:149n.4
inventory, 4:186, 210–211
inventory turnover ratio, 3:343–344
and activity ratio, 3:342–343
activity ratio definition, 3:341
calculation, 3:406
and conversion from LIFO to FIFO, 3:412
and DOH, 3:343–344
inventory management with, 3:426–427
inventory ratios, 3:691
and inventory write-downs, 3:424
payables, 3:341, 345
portfolio, 1:431–432
receivables, 3:341, 344–345
segment, 3:378–379
total asset, 3:346
working capital, 3:341, 346
Turquoise, 5:30
TVC. see total variable cost
TVPI, see investment multiple
2 and 20 fee structure, 6:166
two-assortment portfolio, risk of, 4:332–333
two-for-one stock splits, 4:158
two-fund separation theorem, 4:366–367
two-part tariff pricing, 2:99–100
two-sided (two-tailed) hypothesis test, 1:618
two-sided prices, 2:411–412
two-stage dividend discount model, 5:258–262
2001 Venture Capital Composite, 1:292
2006 Buyout Strategy Fund of Funds Composite, 1:292–293
two-tier board structure, 4:10
two-week report, 2:276
Tyco International, Ltd., 3:694; 5:199, 200
Type I error, 1:620–621
Type II error, 1:620–621
typical cash flows, identifying, 4:191–192

U
UBS, 2:404, 406; 5:209
Uganda, 3:115
Ukraine
exchange rate regime, 2:429
GIPS country sponsor, 1:229
hyperinflation, 2:222
MSCI multi-market index, 5:96
Ukrainian Association of Investment Business, 1:229
ULC, see unit labor cost
unbiased estimators, 1:586
unbilled revenue, 3:70
uncertainty
about future cash flows, 1:455
inflation, 2:274–275
unclassified balance sheets, 3:56
uncollectible accounts, 3:675–676
uncommitted lines of credit, 4:215, 216
unconditional probability, 1:476
unconditional variance, 1:490n.9
Unconstrained Activist UK Equity Composite, 1:290
uncorrelated random variables, 1:502
uncorrelated returns, 4:351
underemployed, 2:218
underground economy, 2:119–120
underinvestment, in inventory, 4:209
underlying (underlying assets), 6:5
for calls, 6:123, 131–133
defined, 6:7
and derivatives valuation, 6:46–47
hedging of, 6:67–68
payments on, 6:90–91
performance of, 6:6
pricing, 6:62–66
in pricing of European options, 6:87, 89–91
for puts, 6:95, 127, 128, 134–136
risk budgeting based on, 4:284
storage of, 6:46–47
types of, 6:36–39
value of, 6:87
and value of contract, 5:20
volatility of, 6:89–90
underlying risk exposures, of options, 5:39
undervalued (term), 5:244
underwater mortgages, 5:48
underwriters, 5:358, 475
underwritten offerings, 5:50, 51, 358–360
unearned fees, 3:58
unearned revenue
accrual accounting for, 3:70
analysis of, 3:226–228
on balance sheets, 3:58
as current liability, 3:226
on income statements, 3:154
unemployed, 2:218
unemployment
analyzing, 2:20–221
and business cycles, 2:217–221
and international trade, 2:336
natural rate of, 2:146, 230
non-accelerating inflation rate of, 2:230
and overall payroll employment, 2:220
and real business cycle models, 2:214
and regional trade agreements, 2:356–357
in stagnation, 2:165–166
unemployment insurance, 2:236
unemployment rate, 2:219–220
unequal cash flows
future value of series with, 1:314
present value of series with, 1:326
unethical actions, reporting, 1:53
unexpected inflation, 2:273–275
Unibail-Rodamco, 1:422
UniCredit, 1:422
uniform distribution
continuous, 1:538–541
discrete, 1:526–528
uniform pricing rule, 5:56
unilateral transfers sub-account, BOP, 2:363
Unilever Group, 3:271–274
Unilever PLC, 1:422; 4:158–159; 5:210
unintentional errors, correction of, 1:72
Union Electric Company, 5:252–254
United Agri-Products (UPI), 3:675–676
United Arab Emirates, 5:96
United Kingdom
banking supervision, 2:271
bankruptcy, 5:596
benchmark rate, 5:438
bonds
bonds outstanding, 5:352, 358
consol, 1:323
foreign, 5:311, 312
inflation-linked, 5:324, 325, 368
non-sovereign government, 5:369
perpetual, 5:298
sovereign, 5:303–304, 365–368
budget deficit, 2:309, 371
business investment, 2:173
capitalization level and contributions
to global GDP, 5:151
commercial paper, 5:372
common law system, 4:27
comparative advantage, 2:340–343, 347
"comply or explain" codes, 4:34
corporate governance systems, 4:14
coupon payment structures, 5:321
covenant-strengthening investor groups, 5:623
currency regime, 2:426, 427, 429
disclosure requirements, 3:662
disinflation, 2:223
domestic and international debt
securities, 5:313
EAR, 1:311n.6
equity risk premiums, 4:87
excess demand/supply of cars, 2:331
exchange rate targeting, 2:285, 286
expected inflation, 2:274
fiscal policy, 2:306
flotation costs, 4:102
frequency of capital budgeting, 4:63
GIPS country sponsor, 1:229
government
cash flows, 2:297–298
liabilities/debt, 2:254, 300
revenues/expenditures, 2:295, 296
hedge fund registration, 6:171
housing prices and saving rate, 2:148
inflation targeting, 2:279–281
international investments in BASF, 5:165
investment spending, 2:136
IPS requirement, 4:440
labor productivity, 2:177
monetary policy, 2:268, 285
money measures, 2:262
MSCI multi-market index, 5:96
national debt, 2:299, 301
net borrowing/lending, 2:297
one-tier boards, 4:9
overconfidence and mispricing in
markets, 5:137
public sector spending, 2:255
residential mortgage loans, 5:482–484
returns
on bonds, bills, and equities, 5:153
real equity returns, 1:397
total returns, 1:405, 407
risk tolerance and equity ownership,
5:155
say on pay, 4:18
scrip dividend schemes, 4:154
share repurchases, 4:163
sinking fund arrangements, 5:320
social influences on tobacco industry,
5:226
Treasury bills, 1:303n.3
wealth effect, 2:148
UK Debt Management Office, 5:304, 313
UK Financial Services Authority, 3:26
UK Investment Performance Committee,
1:229
UK Liquidity Plus Composite, 1:290
United Nations, 4:37; 5:196
United Nations Conference on Trade on
Employment, 2:374
United Nations Global Compact, 4:38
United Nations Monetary and Financial
Conference, 2:374
United Rentals, Inc., 5:600–601,
638–639
United States
ACH system, 4:204
ADRs, 5:167–168
alternative investors, 6:158n.15
antitrust violations, 2:101
approval for dividends, 4:151
APY, 1:311n.6
auctions, 5:360–362
auditing standards, 3:27
balance of payment, 2:364–365
banking and banks
portfolio management, 4:246, 247
bankruptcy, 5:596
banks and banking
regulation, 3:103
sources of credit, 4:215
supervision of, 2:271
benchmark rate, 5:438
bond mutual funds, 4:257n.16
bonds
bonds outstanding, 5:352, 358
corporate notes and, 5:375
foreign, 5:311, 312
inflation-linked, 5:324, 325, 368
municipal, 4:451; 5:353
non-sovereign government, 5:369
sovereign, 5:365–368
tax considerations with, 5:314
yields and credit risk/return,
5:625–626
business investment, 2:173
capital budgeting, 4:63
capital goods expenditures, 2:124
capitalization level and contributions
to global GDP, 5:150–151
capital-to-labor ratio, 2:171
cash underwritten offers, 4:102
CEO duality, 4:21
commercial mortgage-backed
securities, 5:500
commercial paper in, 5:372
common law system, 4:27
corporate activities of government
industries, 5:197
corporate governance systems, 4:14
coupon payment structures, 5:321
covenant-strengthening investor
groups, 5:623
CPI, 2:225, 26
currency regime, 2:426, 429
current account deficit, 2:369, 372, 373
cyclically adjusted budget deficit, 2:309
debt and equity outstanding, 5:348
deflation/disinflation, 2:222, 223
depreciation methods in, 3:474
development of NAICS system, 5:197
domestic and international debt
securities, 5:313
economic indicators, 2:236–238,
240–241
equity risk premium, 4:86, 87
ETFs, 4:259
expected inflation, 2:274
external trade sector, 2:207–208
fiscal policy in 2009–2010, 2:306
floating-rate notes, 5:321
flotation costs, 4:102
foreign direct investment, 2:333, 334
four-factor model use, 4:428
GIPS country sponsor, 1:229
globalization of production, 2:334
global recession, 2:161–163
government
liabilities/debt, 2:254, 300
revenues/expenditures, 2:295, 296
spending, 2:125
government-sponsored enterprises, 5:486
gross domestic product, 2:116–117
forecasts, 2:180–181
potential, 2:179
hedge fund registration, 6:171
imports in, 2:329
industrial comparative ratio analysis,
5:613
and inflation targeting, 2:284
international investments, 5:165
investment spending, 2:136
and ITO charter, 2:374
labor productivity, 2:177
labor supply, 2:172
LIFO method and taxes, 3:407
liquidity representations on balance
sheets, 3:15
manipulation of financial reporting,
3:642
money market funds, 4:256–257
money measures, 2:261
money-weighted return, 1:366n.9
MSCI multi-market index, 5:96
mutual funds, 4:256–257
NAFTA, 2:354, 356
national debt, 2:301
national income, 2:129n.6
natural monopolies, 2:100
net borrowing/lending, 2:297
nominal returns of major asset classes,
4:334–335
non-sovereign government debt, 5:646
OCI statement format, 3:19
one-tier boards, 4:9
open market repurchase transactions,
4:164
operating vs. capital leases, 4:83n.11
overconfidence and mispricing in
markets, 5:137
pension fund investment restrictions,
4:451
United States (continued) presidential cycle, 1:715
proxy for market portfolio, 5:94
PSA prepayment benchmark, 5:489
public sector spending, 2:255
quantitative easing, 2:290, 291
regular cash dividends, 4:153
residential mortgage loans, 5:482–485
returns by asset class, 5:640–641
on bonds and bills, 5:152–153
on equities, 5:152–153
real equity returns, 1:397
on real estate, 6:190
real returns of major asset classes, 4:335–336
on reinvested dividends, 5:170
risk diversification by insurance companies, 4:304
risk of asset classes, 4:337
risk tolerance and equity ownership, 5:154–155
say on pay, 4:118
securities backed by quasi-government entities, 5:486
securities ranked lower than subordinated debt, 5:592
securitization market, 5:470
share repurchases, 4:163, 165
sinking fund arrangements, 5:320
stagnation, 2:165, 232
tax dividends, 4:157
tax and financial regulations, 3:513
taxes and cost of capital, 4:75
television broadcasting, 2:61
textile industry, 2:337–338
tobacco industry, 2:83–84
transition rates of credit ratings, 5:602
trust law in, 5:480
underground economy, 2:119–120
unemployment rate, 2:219
VIE in, 2:251
wealth effect, 2:148
US Aggregate Bond Index, 5:355
US Air Force, 5:226
US Bankruptcy Code, 4:142
US Census Bureau, 5:197
US commercial paper (USCP) market, 5:374–375
US Commodity Futures Trading Commission, 6:153
US Consumer Price Index (US CPI) commodities returns vs., 6:196–197
and inflation-linked bonds, 5:323, 324, 326, 327
US Core Equity Composite (Terminated Composites), 1:293
US Department of Commerce, 2:116–117
US Department of Housing and Urban Development, 5:486
US dollar, 2:393
CAD/USD currency pair, 2:408
CNY/USD exchange rate, 2:395–396
cross-rate calculations with, 2:413–414
as currency anchor, 2:428–429, 431, 432
exchange rate quotes with, 2:410–413
as exchange rate target, 2:286
foreign exchange gains, 5:169
foreign exchange reserves, 2:405–406
forward calculations with, 2:417–418
gold standard for, 2:426
international bonds outstanding in, 5:349
JPY/USD currency pair, 2:408
as reserve currency, 5:19
spot market trading of, 5:10
USD/AUD currency pair, 2:408
USD/EUR currency pair, 2:408
USD/EUR exchange rate, 2:401
USD/GBP currency pair, 2:408
US Federal Reserve
banking supervision by, 2:271
"Beige Book," 2:240
CPI-U use by, 2:226
dollardized currency regimes, 2:429–430
funds and fund rate of, 5:383
independence of, 2:280
inflation targeting by, 2:284
initial margin requirement of, 5:41
insurance for money markets from, 4:257
intervention in FX market, 2:432
interest rate of, 2:261
monetary policy, 2:149–150, 165, 181
objectives of, 2:272
quantitative easing by, 2:290, 291
Regulation T, 5:41
stress testing required by, 4:300
US Federal Trade Commission (FTC), 5:127
US GAAP
for barter transactions, 3:163
for bonds, 3:592, 593, 596, 597
for borrowed funds, 3:465
for capitalisation of interest costs, 3:474n.11, 476
for cash flows, 3:22, 268, 271, 276–280
and completed contract method, 3:158–159
for comprehensive income, 3:19, 199, 202
for debt issuance costs, 3:599
on decision-useful information, 3:644n.2
for deferred tax assets/liabilities, 3:552, 553, 567
for depreciation, 3:487
for disclosure of operating segment, 5:200
fair value definition, 3:463n.2
and FASB, 3:106
financial statement elements under, 3:43n.1
for financial statement ratios, 3:709–710
and global reporting standards, 3:112–113, 126, 127, 130
for gross vs. net reporting, 3:164
and IFRS conservatism in, 3:656–658
on financial reporting standards, 3:130–131
frameworks of, 3:126–127
on income taxes, 3:550, 575–578
for impairments, 3:494–497, 500
income statement standards, 3:118
income taxes, 3:550
for intangible assets, 3:466n.4, 467, 468
for interest, 3:286, 465, 517n.32, 596
for inventory valuation, 3:396–400,
418–420, 427
for investment property, 3:513
for leases, 3:514, 522, 525, 530, 608,
611, 619, 620, 624
for LIFO reserve, 3:407
for long-lived assets, 3:500
for pension plans, 3:626
policy disclosure requirements, 3:134
for revaluation, 3:481, 490, 493–494
for revenue recognition, 3:154–156,
166, 167, 656
and ROE, 3:710–712; 5:173n.29
SEC on reconciliations with, 3:493n.17
for segment reporting, 3:377
and Syngenta, 3:130–131
and taxable profit v. accounting profit, 3:560–562
on tax-related issues, 3:557, 565
and WorldCom financial reports, 3:74
US Investment Performance Committee, 1:229
US Securities and Exchange Commission (SEC), 5:29
Accounting and Auditing Enforcement Release, 3:675–677
adoption of IFRS, 3:407
and convergence of global reporting standards, 3:112–113
on “cookie jar” reserve accounting, 3:659
discipline for financial reporting, 3:661, 662
disclosure regulations, 5:122
financial reporting standards, 3:107–111
Form 3, 3:110
Form 4, 3:110
Form 5, 3:110
Form 6-K, 3:109
Form 8-K, 3:110
Form 10-Q, 3:109
Form 11-K, 3:110
Form 20-F, 3:108–109
Form 40-F, 3:108–109
Form DEF-14A, 3:109
and GAAP, 3:106, 127, 130
and Groupon, 3:669
hedge fund registration, 6:171
and IASB, 3:104
on management reporting, 3:26
MD&A requirements, 3:26–27, 599n.6
on non-GAAP measures in financial reports, 3:649, 669
on non-recurring restructurings events, 3:658
and PACCAR, 3:646–647
prospectuses filed with, 5:474n.3
on reconciliations with US GAAP, 3:493n.17
registration with, 5:168
Regulation FD, 3:110n.13; 5:122 as regulatory body, 3:103
reporting of internal control deficiencies to, 1:632
reporting requirements, 3:663; 4:261
revenue recognition standards, 3:156
Rule 10b-5-1 and 10b-5-2, 5:122n.10
Rule 10b-18, 4:163
Rule 144, 3:110
Rule 144A, 5:168
on sponsored DRs, 5:166
and stakeholder relationships, 4:27–28
and WorldCom financial reports, 3:74
United States Steel Corporation (US Steel), 2:92
US Territories, ACH system, 4:204
US Treasury, 5:360–362
US Treasury bills (T-bills)
bank discount yield, 1:373–374 as benchmark, 4:197
characteristics of, 5:366
correlation of stocks/bonds with, 4:359
discount rate, 5:425
expected value, 1:492–493
historical risk and correlation, 4:359
maturity of, 5:349
money market yield, 1:375
nominal returns, 4:334–335
nominal risk-free interest and liquidity premium, 1:303
as proxy of risk-free return, 4:393–395
pure discount instrument, 1:373
quoting for, 1:373
real returns, 4:335–336
returns on, 1:375
returns on equities and bonds vs., 5:152–153
risk–return tradeoff, 4:335, 337
Sharpe ratio, 1:442–444
short-term investment, 4:194
in short-term portfolio report, 4:200
and TED spread, 6:24
transaction costs with, 5:123
yield, 4:195–196
US Treasury bonds (T-bonds)
characteristics of, 5:366
convexity adjustment for, 5:556–557
correlation with other asset classes, 4:458
in cost of equity, 4:85, 87
relative strength of, 1:719
US Treasury notes (T-notes), 5:366, 543–544

US v. DuPont, 2:69n.4
unit elastic (unitary elastic), 2:67
unit elastic demand (unitary elastic demand), 2:10
unit labor cost (ULC), 2:230, 237
unit normal distribution, 1:542
units (term), 5:18
units-of-production depreciation method, 3:481–486, 678–681
univariate distribution, 1:542
universal owners, 4:37–38
university endowment funds, 4:244; 6:152–153
University of Michigan, 4:244
University of Texas System, 4:244
University of Virginia, 4:250
unlimited funds, 4:48
unqualified audit opinion, 3:28
unrealized capital gains and losses, 5:565
unrealized multiple (RVPI) defined, 1:267, 269
Private Equity (GIPS Section I.7), 1:247
Real Estate (GIPS Section I.6), 1:244
unrestricted subsidiaries, 5:640
unsecured debt, 5:591, 592
unsolicited trading requests, 1:116–117
unsponsored depository receipts, 5:166
unsystematic risk, 4:298n.27
unusual tax credits, 3:565–566
unusual tax losses, 3:565–566
unusual items, on income statements, 3:181–182
updates, 1:118, 155–156
UPI. see United Agri-Products
UPM-Kymmene Corporation, 3:508–510
upper Tier 2 securities, 5:592n.4
UPS, 5:209
up transition probability, 1:536
uptrends, 1:684
Uranium Energy Corporation, 5:92–93
Uruguay, 2:354, 431–432; 3:114
US CPI. see US Consumer Price Index
USC market. see US commercial paper market
useful life, 3:175–178
US Steel, see United States Steel Corporation
Utilities sector, 5:193
utility, 4:343, 461–462
computation of, 4:346
and risk seeking, 4:341
utility assets, 6:200
utility maximization, 4:410
Uzbekistan, 3:114
V
Vale, 5:209
Valero, 5:209
validity instructions, 5:44, 48–49
valuation. see also GIPS Valuation Principles (GIPS Section II)
adjustments in, 3:71
of alternative investments, 6:151
binomial, 6:100–104
of derivatives, 6:45–52, 73–85
and arbitrage, 6:47–52
forward commitments, 6:73–85
options, 6:100–104
pricing vs. valuation, 6:72–73
and storage, 6:46–47
equities (see equity valuation) equivalence of dividends and share repurchases, 4:170–171
external, 1:241–243, 251–252, 263
of fixed-income securities (see fixed-income valuation)
of hedge funds, 6:172–173
internal, 1:242, 252, 264
inventory, 3:398–418
changes in, 3:417–418
comparison of, 3:394–406
cost of sales, gross profit, and ending inventory, 3:400–402
first-in, first-out, 3:172, 222, 399–402
LIFO liquidation, 3:413–417
LIFO reserve, 3:407–413
periodic vs. perpetual inventory systems, 3:402–404
retail method, 3:221
specific identification, 3:172, 399–402
weighted average cost, 3:399–402
weighted average cost method, 3:172–173
market-based, 3:714–719
of non-traded investments, 6:172
principles in capital budgeting, 4:44
of private equity, 6:183–184
of real estate, 6:186, 191–192
revaluation model for long-lived assets, 3:481, 490–494
tax asset valuation accounts, 3:688
valuation allowance, 3:551, 567, 676
valuation ratios, 3:368–371
calculation, 3:368–370
defined, 3:340, 368–370
dividend-related quantities, 3:371
interpretation of EPS, 3:370–371
value. see also present value; time value of money (TMV)
basis point, 5:554
book value per share, 4:169
carrying, 5:247, 529
company, 4:74
and consumer surplus, 2:70–72
conversion, 5:331
critical, 1:622–624
tehnology, 5:247, 271–274, 641
estimated, 5:244–246
exercise of, European options, 6:86
expected, 1:486–490
of bonds and T-bills, 1:492–493
conditional, 1:488
defined, 1:885–487
of product of uncorrelated random variables, 1:502
properties of, 1:494–495
standard deviation, 1:887–488
total probability rule for, 1:488–490
tree diagrams, 1:489–490
and weighted mean, 1:415
face, 1:373, 493; 3:588–591
fair
in asset-based valuation, 6:184
of bonds payable, 3:596–599
Conceptual Framework on, 3:121
defined, 1:263; 3:212n.1, 218–219, 463n.2
financial assets at, 3:237
of financial liabilities, 3:596–597
Fundamentals of Compliance (GIPS Section I.0), 1:232
GIPS Valuation Principles (GIPS Section II), 1:250–251
Input Data (GIPS Section I.1), 1:233
and long-term asset acquisition, 3:463
Private Equity (GIPS Section I.7), 1:245
Real Estate (GIPS Section I.6), 1:241
value (continued)
fairly valued, 5:244
fundamental, 5:119, 244; 6:164
future
defined, 1:304
future value of series of cash flows, 1:312–314
future value of single cash flow, 1:304–312
present and, 1:305, 334–335
of goods and services in GDP, 2:119–120
of growth opportunities, 5:255n.3
intrinsic
book vs., 5:176–177
deviations from, 1:672
from dividend discount model, 5:248
in equity valuation, 5:244
of European options, 6:86
market vs., 5:119–120
inventory, 3:419–420
justified values of price multiples, 5:264–267
liquidation, 6:184
loan-to-value ratio, 5:482, 500; 6:188
marginal value curve, 2:71
market
and asset-based valuation, 5:274; 6:184
and book value, 5:172
defined, 1:265
definitions, 6:38–39
GIPS Valuation Principles (GIPS Section II), 1:250
Input Data (GIPS Section I.1), 1:233n.2
intrinsic vs., 5:119–120
Real Estate (GIPS Section I.6), 1:241n.6
total, 5:175
market value to book value ratio, 3:737–738
measure of, 2:258
net asset
breaking the buck, 4:257
closed-end investment fund, 5:134
and drawdown, 6:170–171
mutual fund, 4:252–253
of REITs, 6:192
trading vs. reporting, 6:172
net book, 3:177
net realizable, 5:221–222, 418
no-arbitrage, 5:407
par, 3:242; 5:298, 399–402
parity, 5:331
present, 3:121
price to book value ratio, 3:368, 369–370
realizable, 3:121
residual, 1:244, 247, 267; 3:175–178
salvage, 3:175
settlement, 3:121
store of, 2:257–258
terminal, 5:248–249, 258–259
time value of options, 6:90
total, 1:243, 247, 268; 2:71
total market, 5:175
Value-Added Strategy Closed-End Real Estate Composite, 1:293
Value-Added Strategy Non-Closed-End Real Estate Composite, 1:293
value at expiration
of calls, 6:123–126, 129, 130
of puts, 6:126–129, 134, 135
value at risk (VaR), 4:442n.2; 6:205
conditional, 4:299
defined, 1:549
and kurtosis, 4:339
Monte Carlo simulation for estimating, 1:555
risk budgeting with, 4:284
as risk metric, 4:298–300
value effect, 5:133
value investors, 3:728
Value Line, 5:260–262
The Value Line Investment Survey, 4:161
value of final output method, 2:117–118, 128
values, CFA Institute, 1:39
value stocks, 5:97, 133
value strategies, for hedge funds, 6:164
value tilt, of indices, 5:91
value weighting. see market-capitalization weighting
van Gelderen, Jacob, 1:714
Vanguard Group, 4:258
Vanguard Total World Stock Index ETF, 1:640–642
vanilla swaps, 6:22–23, 37
VaR. see value at risk
variable consideration, 3:168
variable costs
average, 2:30, 36–37, 39–40
defined, 2:30
and leverage, 4:122–124
and operating leverage, 3:352; 4:129–131
of production, 3:397n.7
total, 2:31–35, 41–42
variable-rate mortgage, 5:483
variable-rate notes, 5:321
variance
of binomial random variables, 1:535
conditional, 1:490–493
covariance, 1:495–500
defined, 1:429, 487
hypothesis testing with, 1:642–647
tests about equality of two variances, 1:644–647
tests with known variance, 1:588, 630–633
tests with single variance, 1:624–644
tests with unknown variance, 1:627–630, 633–642
of lognormal distribution, 1:551, 554–555
of normal distribution, 1:541
population, 1:429–430
and portfolio expected return, 1:500
in probability, 1:472
reliability factors with known vs. unknown, 1:592–593
of returns, 1:495–500; 4:331
for portfolio of assets, 4:331, 355–356
for portfolio of risky assets, 4:389
for single asset, 4:330
and standard deviation, 4:331
sample, 1:432–433
semivariance, 1:436, 437
for single-index model of beta, 4:404
variation, coefficient of, 1:439–441; 3:372
variation margin payments, for futures contracts, 5:22
variety, monopolistic competition and, 2:82, 83
Veblen, Thorstein, 2:21
Veben goods, 2:21
vega, 4:298
velocity of money, 2:140, 232
vendors, number, size, location of, 4:212
Venezuela, 2:248; 3:114
venture capital, 6:179–180
defined, 5:15, 162; 6:154, 175
downside frequencies, 6:157
expansion, 6:179
mezzanine, 6:179
returns, 6:151, 152, 182–183
Sharpe ratios and downside risk measures, 6:156–157
volatility, 6:152
Vereinigung Österreichischer Investmentgesellschaften, 1:228
verification, 1:269; 3:655
Verification (GIPS Section IV), 1:221–222, 256–260
and compliance, 1:227
and performance examinations, 1:260
required procedures, 1:257–260
pre-verification procedures, 1:257–258
verification procedures, 1:258–260
scope and purpose, 1:256–257
verification report
defined, 1:269
Verification (GIPS Section IV), 1:256, 257, 260
Verizon Communications Inc., 2:710–712
VERs, see voluntary export restraints
vertical common-size balance sheet, 3:331
vertical common-size income statement, 3:332–333
vertical common-size ratio analysis, 3:195n.50, 246, 331–333
vertical demand schedule, 2:68
vertical equity, 2:304
Viacom Corporation, 5:156–157
Vidal-Garcia, Javier, 1:478–479
Vietnam, 2:428; 3:114; 5:96
VINC, 1:422
vintage
defined, 1:269
Private Equity (GIPS Section I.7), 1:246–248
Real Estate (GIPS Section I.6), 1:243, 244
violations of ethical standards
detection of, 1:143–144
dissociating from, 1:51–52
lists of, 1:78
notification of known, 1:51
of others, participation or association with, 1:47
reporting, 1:51
sanctions, 1:39
supervisor’s response to, 1:145
virtuous circle, 2:344
Visa, 5:206, 209
Viskanta, Tadas, 4:98n.36
Vivendi, 1:422
VIX. see CBOE Volatility index
Vodafone Group Plc, 3:501–506
volatility and arbitrage, 6:50
artificial asset price, 1:94–96
CBOE Volatility Index (VIX), 1:708
of commodities, 6:196–197
of derivative expiration days,
1:646–647
in equity markets, 5:153–154
of exchange rates, 2:428, 427
and global financial crisis of late 2000s,
1:645–646
implied, 6:41
of investment classes, 6:152
in option pricing models, 1:553–554
portfolio management and, 4:236–238
of underlying, 6:89–90
yield, 5:564–565
volatility strategies, for hedge funds,
6:163
Volkswagen AG
as bond issuer, 5:304
in foreign exchange markets, 5:10
market capitalization, 1:422
similar companies to, 5:189
and variety in automobile market, 2:82
Volkswagen Group
auditor’s reports, 3:28–29
balance sheets, 3:13–15
cash flow statements, 3:22–24
disclosures, 3:134–136
financial notes, 3:25
income statements, 3:17–18
MD&A, 3:27
statement of changes in equity,
3:20–22
statement of comprehensive income,
3:19–20
volume. see trading volume
voluntarily unemployed (term), 2:219
voluntary exchange, 2:335
voluntary export restraints (VERs),
2:348, 351–353
volunteers, compromising of CFA
Institute integrity, 1:193
Volvic, 3:379
Volvo, 5:189
Volvo Group
consolidated balance sheet, 3:421–422
consolidated income statement, 3:421
inventories of Caterpillar Inc. and,
3:428–431
inventory write-downs, 3:420–425
MD&A, 3:431–432
notes to consolidated financial
statements, 3:422–423
von Hayek, F., 2:210
von Mises, L., 2:210
vote by proxy, 5:156
voting cumulative, 4:16; 5:156
proxy, 1:100, 102; 4:16, 27–28
statutory, 5:156
straight, 4:12
voting rights in dual-class share structure, 4:31
shareholder, 4:31–32; 5:156, 157
vulture investors, 6:180
W
WAC. see weighted average coupon rate
WACC. see weighted-average cost of capital
wage-push inflation (cost-push inflation), 2:229–231
wages, nominal, 5:133, 157
Wagner, Honus, 6:202n.34
Waha Capital, 5:27
Wallgreens, 4:92
Wall Street Journal, 5:103
Wall Street Reform and Consumer
Protection Act (2010), 4:18; 6:12–13
Wal-Mart Stores, Inc.
balance sheets, 3:15–16
as bond issuer, 5:304
bonds issued by, 5:313, 314
cash flows from operating activities,
3:279–281
economies of scale, 2:46
industry life cycle of, 5:216–217
inventories management, 4:210
liquidity management, 4:187–189
and market model, 4:404–405
operating leverage, 4:131–132
population mean of sales, 1:402
population variance of sales, 1:430
two-factor analysis of, 5:210
wage/hour discrimination suit, 4:37
Walt Disney Company, 5:375
WAM. see weighted average maturity
war chests, 7:309
warehouse receipt agreements, 3:187
waterfall structures, 5:306, 477
Watson Pharmaceuticals Inc. case study,
5:614–621
The Wave Principle (Elliott), 1:715
weak-form efficient markets, 5:125, 128, 129
wealth
household, 2:147–148
share repurchases for transferring, 4:171
store of, 2:257–258
wealth effect, 2:147–148
weather
derivatives on, 6:38
risk associated with, 4:290
webpages, maintaining, 1:71
Webvan.com, 4:143
weekend effect, 5:132
weighing
for cost of capital, 4:76–78
of nonmarket securities in portfolio, 4:424
weighted average cost, 3:222
weighted average cost method,
3:172–173, 399–402
weighted average cost of capital
(WACC) in capital budgeting decisions, 4:78–79
computing, 4:75
cost of debt and cost of equity in, 5:178
defined, 1:359n.2; 4:75
estimations, 4:95–97
and raising of additional capital,
4:98–101
and return on invested capital, 5:204
risk factors in, 4:90
weighted average coupon rate (WAC),
5:847–490
weighted average life, 5:490–491
weighted average maturity (WAM),
5:847–490
weighted averages, total probability rule
and, 1:485
weighted mean, 1:412–415
formula, 1:412–413
portfolio return as, 1:414
Wellcome Trust, 4:246
Wells Fargo Advantage Small Cap Value
Fund, 1:431
Welsh, Jack, 3:693–694
Western Europe, 5:348. see also specific
countries
Wharf Holdings Ltd., 1:678
Whistleblowing, 1:18, 132, 137
White, Harry Dexter, 2:426
wholesale funds, 5:383–384
wholesale price index (WPI), 2:226
Wilcoxon signed-rank test, 1:648
Wildes, Welles, 1:702
William and Flora Hewlett Foundation, 4:245
willingness to take risk, investors’, 
4:443–445
Wilshire 5000 Total Market Index, 5:95
window dressing, 5:131
Winsorized mean, 1:406n.14
“Within GAAP, but ‘earnings
management’” financial reports, 
3:652–653
W.K. Kellogg Foundation, 4:245
women, in workforce, 5:226–227
won, South Korean, 2:393
work, misrepresentation of, 1:70
working capital
defined, 3:216, 346, 721n.7
and issuer liquidity, 5:635
net, 5:614
working capital management, 4:181–227
about, 4:181–182
accounts payable management,
4:211–214
cash disbursements, 4:214
evaluating, 4:214
trade discounts, 4:213–214
accounts receivable management,
4:201–207
customers’ receipts, 4:203–206
evaluating, 4:206–207
trade granting process, 4:202–203
cash flows, 4:190–193
forecasting short-term, 4:191–192
monitoring cash uses and levels,
4:192–193