THE INVESTOR'S DICTIONARY

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FOREWORD

A dictionary is a sign post. It sets bounds to ideas. By reason of confining these ideas within limits, it makes them easy to understand. It is a simple truth that most of our ideas are mere clusters of notions, not clearly defined. They are vague, and this vagueness often leads to considerable practical difficulties.

This is especially true in finance. Among hundreds of securities, of different types there are a great many that appear similar when they are not, in fact, at all so similar as they appear. In many market operations one binds himself to perform considerably more than he expects to perform. In all the ramifications of financial knowledge, the art of distinguishing exactly between securities, concerning market operations, concerning balance sheets, and more especially with reference to permanent investment, requires above all a clear idea of every item dealt with.

The needs of the investor have not hitherto been considered from this aspect. Most financial dictionaries have been prepared for technicians, most of whom have little need therefor. Yet even these may profit. As the greatest master of French style said to his pupil "Young man, study the dictionary, it is the most interesting of all books". It is more than that; it is a gateway to all other books on financial subjects since it makes clear the words these books must employ.

INVESTOR'S DICTIONARY

A

Acceptance—A bill of exchange or draft, on the face of which appears the signature of the buyer, who thereby makes the bill his unconditional obligation.

Acceptance, Banker's—A bill of exchange drawn upon and accepted by a bank, or by a house specializing in the rediscounting of such bills or drafts. The buyer uses the credit of the bank, as being superior to his own acceptance. Such drafts are often termed "two name paper". Banker's Acceptances can be used as a basis for issuing currency by the Federal Reserve Bank, when that institution has rediscounted the acceptance (See Rediscount.)

Acceptance, Trade—A draft, or bill of exchange drawn by the seller on the purchaser of merchandise and accepted by the purchaser. (See Acceptance.) The Federal Reserve Bank requires a statement to the effect that the obligation of the acceptor arises out of the purchase of goods from the drawer of the bill. Unless so accompanied the bill is not eligible for rediscount.

Accommodation—The granting of credit by a bank or financial institution.

Account—A record of the financial transactions of a company or individual. By extension of meaning, (a) a balance in the bank, (b) a customer, as in the phrase "A good account".

Account and Risk—A brokerage term indicating that in any transactions on behalf of his principal, i.e.—the customer—the broker assumes no risk. Such risk is wholly that of the customer.

Account, Active—A banking or brokerage term for clients, who are either constantly renewing orders, or whose loans, discounts, withdrawals and deposits are constantly changing in volume.

Account, Capital—Corporate investment in fixed assets such as plant, real estate, etc.

Account, Dormant—Funds or securities deposited with a broker or bank which are allowed to remain untouched for a considerable space of time.

Account, Joint—A Banking and Brokerage term used to indicate an account of two or

TRADE ACCEPTANCE

FORM APPROVED BY THE AMERICAN ACCEPTANCE COUNCIL

No. 704

Boston (CITY OF DRAWER) Dec. 4 (DATE) 1925

ON February 4, 1926 (DATE OF MATURITY) PAY TO THE ORDER OF OURSELVES

Two hundred and seventy 00/100 DOLLARS ($ 270 00/100)

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAWEE MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH SUCH DRAWEE MAY DESIGNATE.

TO J. A. Johnson & Co. (NAME OF DRAWEE)

445 Federal St. (STREET ADDRESS)

Boston Mass. (CITY OF DRAWEE)

ACCEPTED

DATE 12/4/25

PAYABLE AT First Nat. Bank Boston (NAME OF BANK)

LOCATION OF BANK Boston

J. A. Johnson & Co. (SIGNATURE OF ACCEPTOR)

Alfred Saltonstall & Co. (SIGNATURE OF DRAWER)

BY A. J. Clancy
Pres.

more persons, in which no order is effective that does not proceed from all concerned. To be distinguished from an and/or account in which orders may be given by any person having an interest in the account. In the event of death, joint accounts cannot be distributed except as ordinary inheritance, whereas and/or accounts are in a different position.

Account, Long—A brokerage term, covering a client's holdings of securities, etc. Thus, the investor or trader who holds 100 shares of U. S. Steel and 50 shares of Union Pacific will find these entered as his "Long Account" in his brokerage statement.

Account, Reserve—Such assets as a corporation or individual may set aside to offset losses which are either likely or certain to accrue; or for prospective obligations, such as interest, dividends, etc.

Account, Surplus—A general term which, broadly speaking, covers a given corporation's excess of Total Assets over its Total Liabilities.

Accounts Payable—Commercial liabilities arising out of current transactions. Any type of funded debt is excluded.

Accounts Receivable—Sums owing to a company or person on account of sales of merchandise or on account of sales of smaller capital assets.

Accumulation—A quiet purchasing of stocks, in large quantities, usually by insiders or pool manipulators when stocks appear to be undervalued. This implies long-term operations, and not present market manipulation.

Actuary—A statistical expert who is practiced in determining the risks involved in a particular type of undertaking, or other risks, based on average experience over a long period of time. Thus, in the life insurance field, an actuary is one who determines what premium a company will have to charge in order to protect it from loss in connection with insuring men and women against death.

Administrator—When a person dies intestate—that is, without having left a will—or when his will fails to include the appointment of an executor, the court will appoint some individual to attend to winding up the estate. The individual so appointed is known as the Administrator.

Advance—An upswing in prices. The opposite of a decline, which means a recession in prices.

Affidavit—Sworn declaration, made in writing, before a duly constituted authority.

Agent—One who has been appointed to represent him, by a principal, in some transaction.

Allocate—To allot to all persons having a claim upon securities or properties such portions as are available, pro rata, or according to such other rules of distribution as happen to apply in the particular circumstances.

Allotee—The subscriber, or "applicant", in a security-underwriting who receives an allotment.

Allotment—A term encountered chiefly in connection with Underwriting Syndicates, where it refers to the part or portion of a given total of securities which is set apart for subscription by some individual, group or firm. Often, when a given underwriting is "over-subscribed"—that is, when subscription-offerings exceed the amount of the securities available for sale—allotments will be reduced in proportion to the extent of the over-subscription. Thus, if an issue be 10% over-subscribed, allotments will be reduced 10%, and so on.

Alloy—Less valuable metal fused with more valuable monetary metals to give the resultant coins greater endurance, availability, etc.

Amortization—A term which is used generally to cover any repayment, or reduction, of an indebtedness of any kind, which is made in "instalments". Thus, the Building & Loan mortgage-borrower who pays a certain amount toward the extinguishment of his mortgage every month, until the mortgage loan has been entirely discharged, is practicing amortization. In the same way, the railroad whose rental for equipment includes regular payments against the cost of the equipment is amortizing the purchase price.

Analysis—The critical study of any given security or group of securities, especially with reference to interpretations of balance sheets and income statements.

Annuitant—The recipient of an Annuity, which see.

Annuity—A fixed income paid yearly especially upon forfeiting of the principal.

Most often heard in connection with Annuities offered by Insurance Companies, under which a yearly income is paid to annuitants by the companies concerned, in consideration of purchase price. There are several kinds of Annuities, including:—

Annuity, Certain—Annuity paid for a given number of years, as opposed to one paid for life.

Annuity, Contingent—Like any other contingent contract in that it does not come into force unless or until some specified contingency occurs.

Annuity, Deferred—An annuity which does not become payable until after the expiration of an agreed-on period.

Annuity, Due—Annuity under which payments start at the beginning rather than at the end of the first year.

Annuity, Life—Continuing for—and ceasing with—the life of the Annuitant.

Annuity, Survivorship—An annuity payable to the beneficiary of a life insurance policy upon the death of the insured.

Appraisal—Valuation of property for accounting or taxation purposes.

Arbitrage—The simultaneous purchase and sale of a given security, or property, in two different markets, effected for the purpose of advantaging from such price-differentials as may exist between the two markets. Arbitrage used to be practiced much more actively than it is today, in the days when means of communication had not been perfected to the extent now existing, and when variations in price, on the same property, between markets would occur much more often, and be greater, than they are now. Under present conditions, intercommunication between markets has come to be so nearly simultaneous, that anything but small price-differentials seldom occurs.

Articles of Agreement—A written statement between individuals of their mutual purposes and intents in respect to some undertaking in which they all have joined. A form used, for example, in the organization of Investment Clubs, wherein members of the "club" or "association" specify the conditions to which they will adhere, and the rules under which the association will operate.

Assay—Test to determine actual mineral composition of bullion or ores.

Assay Office—Laboratory for assaying metals. The United States government maintains several such offices, where assaying of precious metals is carried on.

Assent—In securities, the consent of shareholders or bondholders to a change in the position or conditions under which their securities are held. Securities stamped accordingly are termed "assented".

Assessment—A call, to a corporation's stockholders, for the payment of specific sum per share into the treasury of the corporation. Frequently found necessary in reorganization, where a corporation's treasury has been so depleted as to necessitate its rehabilitation—and where the actual rehabilitation can only be effected through payments from stockholders. Incidentally, the modern practice of declaring a stock "non-assessable" does not preclude the levying of what amounts to an assessment in event of trouble. Under such circumstances, the method is to form a new company, and offer shares in that company in exchange for the old shares of security-holders, plus a given sum of money in dollars per share.

Assets—Properties held, or in prospect. Thus:—

Assets, Active—Assets (or properties) which are in use, and whose employment is productive.

Assets, Actual—Tangible properties—money, machinery, etc.,—having a real value, as opposed to intangible property of a purely nominal value.

Assets, Cash—Such properties held by a corporation as actually are money, or can be readily converted into money.

Assets, Current—Cash, inventories of goods in process, raw materials, etc.—accounts receivable—notes receivable—negotiable securities, having an established cash value—In short, all the corporation's holdings that are liquid in nature and useful in current business operations.

Assets, Dead—Properties which have ceased to be of value.

Assets, Deferred—Expenses paid in advance.

Assets, Earning—A term used to define the interest-bearing investments of Federal Reserve Banks, exclusive of real estate.

Assets, Fixed—Assets of a permanent nature, such as real estate, plants, equipment, furniture, etc.

Assets, Frozen—A term applied to once-liquid assets which, due to changes in conditions, have become "congealed" or non-liquid. Thus, in the depression of 1921, when the collections of many firms could not be effected due to the inability of those concerned to move their goods, the result was a very widespread affliction of "frozen assets". These had to await the coming of trade-resumption, and the return of investment-confidence, before they could be liquified, and the sum tied up made available for re-investment elsewhere.

Assets, Hidden—A term used to define actual properties of value, or actual values, which a corporation has in its possession but which are not revealed in its statement. Thus, heavily undervalued plants, or securities, or subsidiary properties may be grouped under the title of "hidden assets".

Assets, Intangible—Assets such as patents, good will, trade marks, franchises, etc., whose value is problematical, or which do not represent tangible property. Often used to "pad" a corporation's balance sheet, as when Good Will, having an extremely doubtful value, is entered in the books at many millions of dollars.

Assets, Liquid—Assets which can be soeedily converted into cash, or are cash.

Assets, Live—The opposite of "dead assets", which see.

Assets, Net—Surplus of assets over liabilities.

Assets, Nominal—Assets whose value is doubtful.

Assets, Quick—Same as Liquid Assets, which see.

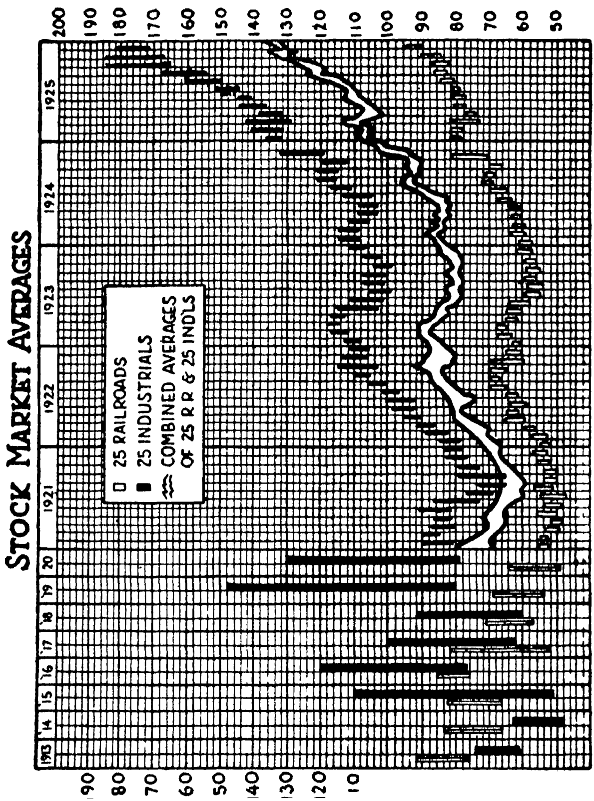
Assets, Slow—Property which cannot be immediately converted into money, except at some sacrifice in value. Property having a reduced present value, but whose value is likely to increase as time passes.

Assets, Tangible—Assets which are recognizably valuable, and real.

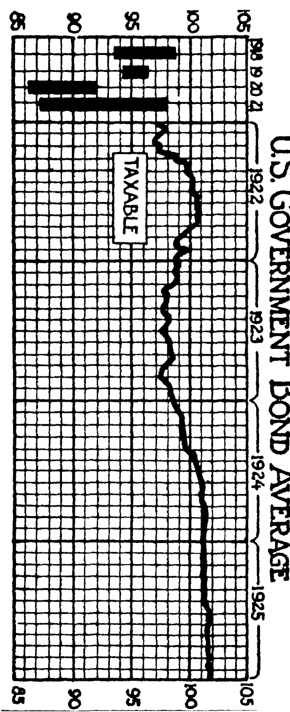
Assets, Watered—Like Watered Stock—which see—such assets are those to which a fictitious or exaggerated value has been assigned in the balance sheet. Thus, if a plant which is actually worth $25,000 or $30,000 is carried in the balance sheet at $75,000 or $100,000, it is, very plainly, a Watered Asset.

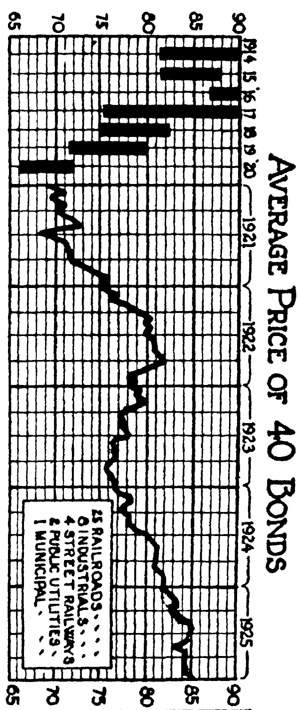
Assigned in Blank—A formal assignment of a security to another owner, without including the new owner's name.

Assumption—The liability of a parent, hold-



ing, or controlling company for the debts of a junior, divisional, subsidiary or affiliated company. Assumption does not constitute a guaranty but for all practical purposes binds the assuming corporation to similar payments. Bonds subject to such assumption are termed "assumed bonds".





Assurance—In finance, used in place of insurance, and having the same meaning.

At the Market—The purchase or sale of securities at the prevailing market price. Thus, the holder of a security who wishes to realize what he can from it, as quickly as possible, orders it sold "at the market". Were such a holder to set a specific price upon the security, the prevailing market-price might be far distant, which would mean that he would have to wait indefinitely before his transaction could be completed.

At the Opening—The purchase or sale of securities as soon as possible after trading begins on a given day.

Audit—The examination of the data upon which balance sheets or income statements have been based.

Averages—This is an abbreviation of the words "Average Prices", used in reference to the numerous average-price tables compiled, from day to day, or otherwise periodically, by various organizations. A very well-known set of Averages, for example, is those compiled by the *New York Times,* which show the average price of a selected group of railroad stocks, another selected group of industrial stocks, and a combination of both groups. Such averages are supposed to reflect the course of the market as a whole, the theory being that an average of the market's most important stocks will be the best indication of the market's day-to-day trend. Unfortunately, the market has become so big, with the passing of the years, it is pretty nearly impossible to chart its course, as a whole, through averaging the price-movements of a limited number of the issues dealt in. Furthermore, the market has, very largely, ceased to fluctuate "as a whole"—except in periods of great stress. Nowadays, it moves more according to groups. Thus, it is not unusual to find the Steels weak on the same day in which the Public Utilities are strong, and so on.

Averaging—The purchase of an additional quantity of some stock which a purchaser already holds, in order to lower the total cost per share of the whole commitment. Thus, if one has bought 100 shares of U. S. Steel at 120; if Steel declines to 110 and he buys another 100 shares, his average cost per share will have been "averaged down" from the original price of 120 to the new price of 115. The trouble with averaging is that so many investors, in practicing it, merely make matters worse. They forget that there is no law which assures the recovery of a stock to its original price, merely because it has declined below that figure. And so, they go on, throwing good money after bad until—often—they haven't any to "throw".

B

Balance of Trade—The difference between the value of imports and exports. When exports exceed imports, a country is said to have a favorable balance of trade. When an apparently unfavorable balance of trade is shown, that is, when the value of exports is exceeded by the value of imports, such incoming remittances as insurance premiums, shipping payments, dividends, interest, tourists' expenditures, are called the "invisible balance".

Balance Sheet—A corporation's statement of assets and liabilities, as of a given date.

Bank—An institution functioning in the lending, borrowing, and care of funds. There are many types of banks—e.g.

Bank, Acceptance—A bank engaged in the purchase and/or sale of acceptances.

Banks, Branch—Branches of existing institutions. National banks, in this country, are not permitted to have branches. The direct opposite of the banking system, say, of Canada, where eleven institutions, through branches dotted all over the Dominion, transact practically the entire banking business done in the Dominion. On the other hand, national banks in the United States have been permitted to establish what are called "offices", in addition to their main headquarters, within the city in which they function; and some States permit their State banks to have branches. It is this fact, coupled with the size attained by some American cities—notably New York City—which make some of the American banks, despite the restrictions noted, the enormous institutions, with the many "offices", that they are.

Banks, Co-operative—A general term, covering such institutions as Mutual Loan Associations (which see) and other co-operative financial institutions.

Bank, Country—A misnomer since it does not mean, necessarily, banks not located in large cities; instead, it merely refers to those banks not situated in a Reserve or Central Reserve City, under the designations of the Federal Reserve Act.

Bank, Federal Land—A banking institution organized under the Federal Farm Loan Act and functioning in the issuance and sale of "Federal Farm Loan Bonds"—such bonds being secured by first mortgages on the farms of members of national Farm Loan Associations.

Bank, Federal Reserve—Any one of the twelve "bankers' banks" formed under the Federal Reserve Act of 1913, authorized to take deposits only from member-banks of the Federal Reserve System, foreign banks and governments along with certain funds of the Federal Government, barring deposits for specific purposes which may be taken from non-member banks.

Bank, Joint Stock Land—Differs from a Federal Land Bank largely in that it is not part of a unified system, and must stand on its own feet. Organized to carry on the business of lending money on farm mortgage security and issuing farm loan bonds authorized under the Federal Farm Loan Act and with the approval of the Federal Farm Loan Board.

Banks, Labor—A distinguishing cognomen applied to banking institutions reared up by labor organizations—of which several were formed in the United States shortly after the war. Institutions of this character achieved great renown, in the early months of their operation, due to the rapidity with which they grew. As a matter of fact, their rapid development, in the beginning, was attributable to nothing more nor less than the diversion to them of the patronage already controlled by, or susceptible to the influence of, the brotherhoods, or federations concerned.

Bank, Member—Any national bank, state bank or trust company having membership in the Federal Reserve System.

Bank, Mutual Savings—Literally, a mutualized savings bank—that is, a savings institution which is conducted entirely for the benefit of its depositors and has no stockholders.

Bank, National—A banking institution organized under the National Bank Act, empowered to issue bank notes against Government Bonds purchased by it and deposited with the United States Treasury. Is empowered to loan money, receive deposits, etc. Capital of a National Bank is derived from the sale of its stock. Stockholders accept a double liability on their holding, 100% representing the original subscription and 100% representing the additional liability, under the law. Powers of National Banks were materially broadened under the Federal Reserve Act of 1913, and national banks of today frequently engage not only in what used to be known as the "banking business", but also in trust operations.

Bank, Savings—A banking institution organized primarily to enable the accumulation of savings on the part of individuals of smaller means. Differs from other banks particularly in respect to the restrictions imposed upon its own investments by law. Interest paid on savings accounts by savings institutions vary somewhat with the localities in which the institutions operate, but is generally lower than is obtainable through other mediums. The explanation lies largely in the restricted nature of such an institution's investments, as outlined above. Advantages offered by a savings bank, as compared with other institutions, consist primarily in the willingness of such institutions to accept deposits of any size, from one dollar up, although a maximum upon the amount of any one deposit is generally set, in some cases at $10,000. A "withdrawal clause", requiring 60 days' notice before a savings bank account may be totally withdrawn, generally applies to savings bank deposits, but is seldom invoked. Method of crediting interest often varies within institutions—sometimes considerably. Nevertheless, it is obvious that savings banks perform an important and substantial service to the communities in which they function.

Bank, State—Differs from a National Bank in that it operates under a State rather then a National charter and is not permitted to issue bank notes.

Bank-Trust Company—Prior to the passage of the Federal Reserve Act, a Trust Company was a very distinctive type of financial institution, engaging in numerous activities not permitted to a National Bank. In recent years, however, the Trust business as such has largely lost its distinctive features, great numbers of our National Banks having developed Trust departments and begun to perform Trust operations, under the law. Trust service is of great practical usefulness to the investor, and has been developed very rapidly in recent years. Basically, Trust service supplied institutional executorship of wills. But in recent years Trust operations have broadened materially and now include: Living, or Voluntary Trusts, under which an individual may assure the repayment of a given principal, or the interest therefrom, or both, for a given purpose at a given time; Safe-Keeping Accounts (by this, or some other name) under which an individual investor may be relieved of the routine involved in the personal handling of his investments. Trust companies also serve as trustees under corporate mortgages, as agents for special security-committees under reorganizations, as transfer agents and registrars, etc.

Bank Accommodation—See Accommodation.

Bank Account—See Account.

Bank Call—A demand, under the law, and issued by the Superintendent of Banks, in the case of State Banks, or the Controller of the Currency, in the case of National Banks, requiring a balance sheet, duly sworn, showing the condition of all controlled institutions as of a given date. Such calls may be issued at irregular intervals during the year, the purpose being to assure the sound condition of the controlled institutions at all times.

Bank Clearings—The various items presented by the banks at the clearing house for collection.

Bank of Issue—One authorized to issue its notes for circulation as money.

Bank Statement—A report of the condition of a given bank, or group of banks, as of a given date.

Banker—A dealer in credit whose function it is to make productive use of the earnings and assets of his institution, at the same time duly protecting the interests of his depositors.

Banker's Acceptance — See Acceptance, Banker's.

Bankrupt—One who, being unable to meet his outstanding obligations, has been brought into Court for relief; or one, who having been adjudged his debts, has been legally freed of further responsibility for such debts.

Bankruptcy—The state of being insolvent.

Bankruptcy, Acts of—Under the Bankruptcy Act, Acts of Bankruptcy by a person shall "consist of his having (1) conveyed, transferred, concealed or removed any part of his property, with intent to hinder, delay or defraud his creditors, or any of them; or (2) transferred while insolvent any portion of his property to one or more of his creditors with intent to prefer such creditors over his other creditors; or (3) suffered or permitted, while insolvent, any creditor to obtain a preference through legal proceedings, and not having at least five days before a sale or final disposition of any property affected by such preference vacated or discharged such preference; or, (4) made a general assignment for the benefit of his creditors; or, being insolvent, applied for a receiver or trustee for his property or because of insolvency a receiver or trustee has been put in charge of his property under the laws of a State, or of a Territory of the United States; or (5) admitted in writing his inability to pay his debts and his willingness to be adjudged a bankrupt on that ground."

Bankruptcy, Involuntary—The condition of bankruptcy into which any debtor may be thrown upon proof of commission of any of the acts of bankruptcy, as defined in the law. This includes "any natural person except a wage earner or a person engaged chiefly in farming or the tillage of the soil, any unincorporated company and any monied, business or commercial corporation, except a municipal, railroad, insurance or banking corporation, owing debts to the amount of one thousand dollars or over".

Bankruptcy, Voluntary—The suit of a debtor who declares himself unable to meet his obligations and who himself files a petition in bankruptcy.

Barometer—The theory that the stock market forecasts by its fluctuations the proximate course of industry and commerce is termed the "barometer" theory. Such securities also, whose action is looked to as a source of fluctuations in less active and important securities are known as "barometer stocks".

Basis—In securities the use of the income, or yield to maturity, as the factor from which to compute price. In 1914 when the stock exchange was closed, basis trading prevailed in bonds exclusively. Also used colloquially as equivalent to "yield" as in the expression, "Railroad bonds are on a five per cent basis".

Bear—The original derivation of this term is lost in antiquity. Its meaning has not changed from the beginning: A bear is one who believes that security prices are tending lower. Bears are, of course, not always active in the market but when they are active, their dealings take the form of "short selling", which is a specialized type of trading operation through means of which it is possible to make a profit from a decline in a security's market value.

From "bear" comes the adjective "bearish", which means "inclined to favor lower prices".

Bear Market—A market which moves in a direction pleasing to the "bears"—that is, downward. The opposite of a "bull market".

Beneficiary—One who is to receive money on account of some agreement or commitment, such as trust, insurance policy, etc.

Bequest—The transfer of personal property under a Will.

Bid—An offer to pay a stipulated sum for a given property, or token of property. In Wall Street, a "bid" is an offer to pay a given sum for a given security. The "bid" price, of course, is the opposite of the asked price (which see); and the two prices, mentioned together, constitute what is known as the "market quotation", or "market" for the security under discussion. Thus, if U. S. Steel is 120 bid, offered at 121, the "quotation" on Steel will be 120-121.

Bill of Exchange—A draft: an order signed by one person to another to deliver money to a third. The most common document in Foreign Exchange.

Bill (Currency)—Paper money is colloquially referred to as "bills".

Bill of Lading—A receipt given by a railroad or shipping company, etc., to a shipper. It acts as a contract to transport the goods mentioned.

Bimetallism—The coinage contemporaneously of two metals as standard money, with a fixed ratio of weight between the two metals so established, irrespective of differences in market value of the metals. Usually gold and silver are the currencies used in bimetallic plans. Limited bimetallism has prevailed extensively in the past, and still persists technically in the Latin Monetary Union.

Binder—A fire insurance temporary document, assuring protection pending the issuance of a definitive policy.

Block—A large amount of stocks or bonds, usually limited to the same issue and denomination.

Blotter—Original book of entry used by brokerage houses.

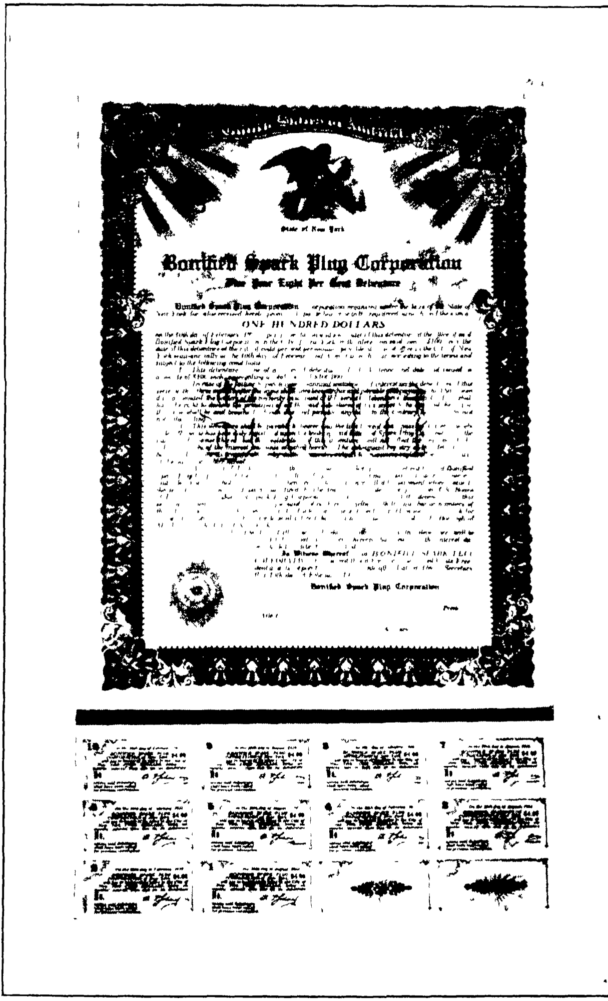
Blue Sky Law—Statute regulating the sale of securities, with a view towards checking the sale of worthless stocks and bonds, or stocks and bonds sold at a price outrageously above their intrinsic value.

Board of Directors—The persons elected by the stockholders of a corporation to act as agents and manage the affairs of the corporation.

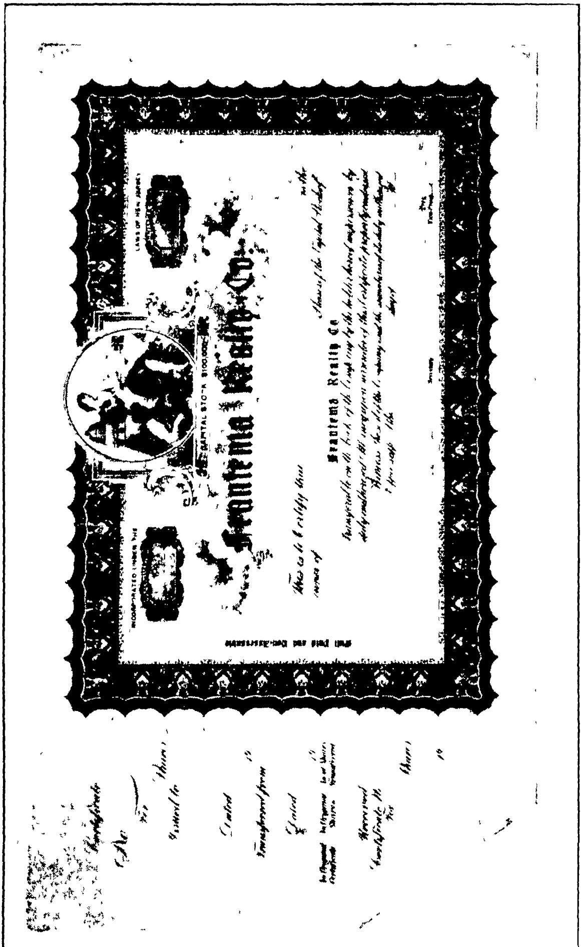
Bond (Corporation)—A written agreement of more than temporary duration to pay money either absolutely or conditionally. Divided for special purposes into three classes, viz., coupon bonds; coupon bonds registerable as to principal only; and bonds registered as to both principal and interest. Possession conveys title in respect to interest and principal, on the first class; possession conveys title to the interest, in respect to the second; both principal and interest are paid direct to the registered owner of the bond, in the third class. A bond differs from a stock in numerous respects. Broadly speaking, a bond holder may be said to be a creditor of a corporation, whereas a stockholder is a partner. Bonds are generally secured, either under a blanket mortgage on the entire property, or else under a mortgage covering a specified portion of the property; as such, bonds have a prior claim, in liquidation, upon the property, or any part thereof; while they also have a first claim upon the earnings of the corporation, current or accrued, for the payment of bond interest. Stocks, on the other hand, share in liquidation only after the bondholders and other prior creditors have been satisfied; and bond interest must be paid before dividends can be paid on the stock. On the other hand, the equities (or share) of a bond in a given property are always stipulated and are confined to the stipulated amount, whereas a stock's equity, after the satisfaction of creditors, is governed only by the value of the property. Likewise, the interest payable on a bond is always stipulated and compulsory whereas the sum that may be disbursed in dividends on a stock is limited only by the earnings of a corporation.

Bond, Adjustment—One of numerous appellations attached to bonds issued under reorganizations, having no particular significance until the indenture governing it has been examined. Merely a classification.

Bond, Baby—Originally bonds were distributed chiefly among persons of large



"Baby" Bond with Coupons



Stock Certificate. Stub Shown at Left Is Retained by Issuing Company wealth, and the denomination in which they were issued was seldom less than $1000. In recent years, buyers of bonds have increased in number, and there has developed a very substantial purchasing capacity for bonds issued in smaller denominations. A "Baby Bond" is a bond of this latter character—specifically, a bond issued in denominations of $100.

Bond, Callable—Bonds are frequently issued subject to the right of the issuing corporation to call same for payment prior to the maturity of the issue. The price at which the bond may be called, under such circumstances, is generally at a premium over the issuing price, thus compensating the holder for the retirement of his investment.

Bond, Called—A called bond is a callable bond which has been called for redemption. As interest ceases on such bonds after the date of call, uninformed investors, out of touch with the news, may, and frequently do suffer a considerable loss, in the shape of forfeited income when their securities are called.

Bond, Collateral Trust—A bond whose security consists of stocks or bonds, or both, deposited with a trustee. Originally, the issuance of collateral trust bonds was confined almost entirely to corporations for financing purposes. They can be used to enable the small investor to invest in securities and thereby secure an equity in a high-grade and diversified investment despite his limited means. The basic principle has been widely developed through the Investment Trusts.

Bonds, Convertible—Bonds whose holders are entitled to switch into a specified proportion of a given corporation's stock. Considered an attractive form of investment, under good conditions and when issued for a constructive purpose by a well-managed company, in that the bond supplies the element of safety (to a varying extent) while the corporation is building up, whereas the conversion privilege enables the holder to share in the speculative growth of the company—assuming such growth eventuates. The conversion privilege, as outlined here, is merely one of several methods devised of adding to the attractiveness of a given bond issue and thus rendering it more easily salable. The investor should remember that the market price of such bonds, after the stock's price has reached a point at which conversion becomes attractive, will fluctuate in accordance with fluctuations in the stock. In other words, a Convertible Bond may be an exceedingly speculative investment, under certain conditions.

Bond, Debenture—Generally, an unsecured obligation of the issuing corporation, whose investment position should be made the subject of careful inquiry before purchase.

Bond, First and Refunding—A classification covering bonds issued to refund previous issues of bonds and secured by a first mortgage on the property concerned.

Bond, First Mortgage—Properly, a bond secured by first mortgage against the properties covered.

Bond, General Mortgage—Secured by first mortgage on a portion of the property and generally becoming a first mortgage on the entire properties as underlying loans become due and payable.

Bond, Income—A prior claim on the net income of a corporation, receiving interest only when earned by the issuing company. Occupies relatively the same position as a preferred stock, except in corporations having both types of security outstanding, in which case the Income Bonds rank first.

Bonds, Municipal—A misnomer which usage applies to the bonds issued by political subdivisions of the United States; for example, counties, cities, towns, villages, etc. Became a very popular form of investment among the wealthy in late years, due to tax-exemption, but is nevertheless the type of bond which merits careful analysis before purchase. This not only because of the doubtful security back of some bonds issued under this head, but also because of the extravagant expenditures of which many municipalities have been guilty, due to the ease with which municipal issues have been marketable.

Bond, Public—A term popularized by The Magazine of Wall Street, and used to denote the bond issues of political subdivisions of the nation, including states, cities, towns, villages, etc.

Books Close—Date at which transfers of stock are temporarily suspended from being recorded on the stock transfer book of a company, so that dividend may be paid to stockholders of record as of a given date.

Books Open—Date at which records of transfers of stock ownership are resumed on the stock transfer books of a company, after a period of suspending such entries.

Bourse—Stock Exchange. Term is used in practically all countries except the English-speaking.

Broker—One who acts for investors in the purchase or sale of securities.

Bucketing—A term covering, in broad effect, the various processes through which a broker may either neutralize or even fail to effect the transactions ordered by his customers. Thus, if a broker receives an order from a customer to buy 100 shares of U. S. Steel and fails to execute that order, at the same time assuring his customer that he has executed it, the broker is bucketing; or, if he neutralizes customers' purchases by selling, for his account, whatever they buy, and vice versa, he is also bucketing. Bucketing is based on the theory that the average investor buys and sells at the wrong time—that if a broker merely does the opposite of what his customers do, he will, in the end, come out ahead. The theory is an ugly one; and much of the success that illicit brokers have attained under this theory has undoubtedly been attributable to the fact that they did not actually execute the orders their customers gave. Otherwise, the force of their customers' buying might, and probably would, have brought about a very different situation in the securities concerned.

Budget—An estimate of probable income and probable outgo for an individual, group or corporation over a given period, used as a basis for limitation of expenditure.

Building & Loan Association—A co-operative society, originally devised in Scotland, imported to America and, in recent years, become one of the most important types of financial institutions in this country. Fundamental purpose of a B & L is twofold: First, to supply members of a given group (composing the association) with a source from which funds may be borrowed, on easy and economical terms, with proper security, for the erection of residences; secondly, to supply the members of the group with a means of putting their funds to productive use in the mortgage market.

Such Associations are subject to the laws of the State in which they operate and to supervision, generally, of the State Banking Department, thereby acquiring most of the safety elements enjoyed by Savings institutions of the State. Popular understanding of Building & Loan Associations has been widened greatly in recent years, aided by numerous educational articles on the subject published in the Building Your Future Income Department of The Magazine of Wall Street.

Bull—In Wall Street parlance, a "bull" is the opposite of a bear. That is to say, a "bull" is one who believes that prices of securities are due to advance, rather than decline. The reader should not assume that the terms "bull" and "bear" are applied only in chronic cases. Traders may be "bullish" one day and "bearish" the next, depending upon the trend of events during the interim. It is true, however, that, in professional trading, there are certain types of men who are more successful at "bearing the market" than at "bulling" it, and vice versa.

Bullion—Unminted gold and silver, usually in bars or ingots. A frequent form in which the precious metals are transferred from one country to another in order to equalize Foreign Exchange.

Buying Order—A written or verbal instruction to one's broker or agent to purchase a given security or securities, in accordance with the agreement made at the time. Such orders will sometimes be entered "at the market", which means that the customer instructs his broker to purchase the desired security at the current market price, whatever that may be. "At the Opening" is another way of entering an order, and means that the broker has been instructed to purchase the security at the opening of the market's next daily session.

Call—A "call" is a written agreement under which the issuer binds himself to deliver to the holder, within a certain time and at a stipulated price, stock named in the agreement. It is a form of "option" sometimes used by speculators as a means of protecting a holding, but more often used in lieu of a speculative commitment. For example, if a speculator believes that U. S.

Steel is going to advance materially in price, he may purchase a "call" on U. S. Steel, the issuer of which is obligated to deliver to the speculator the shares called for, within 30 days, at a stipulated figure. If the present price be 120; if the price named in the call be 124; if the call be for 100 shares and costs $500, then, upon Steel's advancing to 129½, the speculator will have a half-point profit on his call, since the cost of the call was the equivalent of 5 points on 100 shares, and since 129½ would be a half-point above the call-price. The use of calls in this way is defended on the grounds that they permit the speculator to "limit" his loss; for it is clear that the most the speculator can lose will be the cost of his call. However, the prices at which calls may be purchased are generally so far away from prevailing market levels and the call-out so excessive as to make successful commitments through this means difficult to obtain. "Calls" are used to "protect" a speculative commitment in the following manner: A speculator who is "short" of a stock does not wish to run the risk of losing more than a certain amount of money in the stock. He therefore purchases a "call", at a given market level, under which he is assured delivery of the stock as soon as it reaches that level (within the duration of the call). Manifestly, the stock no sooner reaches the price named than his call becomes operative, and his original commitment, from that point on, is nullified. (See also "Put.")

Callable—A term covering securities (bonds or preferred stocks) which are issued by corporations subject to redemption before maturity. (See Callable Bond.)

Capital—The money invested in a given business.

Capital, Working—The difference between current assets, such as cash, receivables, etc., and current liabilities, such as payables, etc.

Capitalization—The total outstanding securities of any company.

Car Loadings—One of the most generally accepted indices of business activity, showing the total number of freight cars loaded with revenue freight over a given period. Reports covering the operations of all the railroads of the country are collected and made public, weekly.

Carriers—In Stock Exchange parlance, the railroad systems.

Cats and Dogs—Worthless or speculative securities without much chance of pulling through.

Caveat Emptor—"Let the buyer beware".

Certificate of Deposit—A formal receipt given by a bank, certifying that it holds funds in a special deposit. Such certificates are interest-bearing, and are negotiable. There are two classes, demand and time certificates.

Chart—See "Graph."

Check—An order to a bank, to pay to a third party funds at present credited to the drawer of the order.

Checks, Banker's—Checks convertible into currency by a large number of correspondents, and issued by banks against signature of the purchaser. The most convenient method of obtaining cash in foreign countries for smaller amounts.

Clearing House—An organization of bankers, usually in the same city, by which a central office is maintained for settling balances daily between the members. Checks put through the clearing house are said to be "cleared". Clearing houses additionally regulate small exchange charges, etc., of member banks, and in monetary crises are often important mechanisms for allaying panic. This latter function has been practically eliminated by the Federal Reserve System. Banks not members of the clearing house often clear through a member bank.

Coin—A convenient sized piece of metal, stamped by the government and circulated as a medium of exchange. Usually alloyed.

Collateral—Stock or bond certificates deposited as security for a loan. Not all securities are acceptable as collateral; some are more acceptable than others. Much depends upon the ready marketability of the issue—that is, the ease with which it may be liquidated; also upon intrinsic worth.

Collections—Settlements in funds by banks to satisfy documents against its funds, and obtained by another bank. Inter-city collections are handled by the Federal Reserve System.

Commercial Credit Companies—Corporations or partnerships advancing money against bills or accounts receivable. Frequently these corporations purchase such receivables.

Commission—The fee charged by one's broker, as agent, for the purchase or sale of securities. In the case of broker-members of the New York Stock Exchange, such fees are stipulated. There are several rates, according to price class of securities dealt in.

Commission House—A brokerage house which engages in the purchase or sale of securities only as agent for its customers, and never for its own account.

Commitment—The purchase or sale of a security, or the "committing" of one's self to any other business transaction.

Commodity—Any movable article of commerce or trade, regardless of source or nature. Thus, cotton is a commodity, and so is copper; iron, nickel, corn, oats, silver and wheat are commodities.

Comparison—Upon closing of the Stock Exchange at the end of a day's business, the broker who has effected a sale checks the daily between the members. Checks put through the clearing house are said to be "cleared". Clearing houses additionally regulate small exchange charges, etc., of member banks, and in monetary crises are often important mechanisms for allaying panic. This latter function has been practically eliminated by the Federal Reserve System. Banks not members of the clearing house often clear through a member bank.

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Comparison—Upon closing of the Stock Exchange at the end of a day's business, the broker who has effected a sale checks the tickets of sale at the office of the purchasing broker to see that the transaction has accurately taken place. The Stock Clearing Corporations perform a large part in carrying out the transfer of the "bought" and "sold" tickets.

Company—A loose term, applied to any group of individuals joined together for a common business purpose.

Company, Controlling—A company, controlling through stock-ownership, the operations of some other (subsidiary) company.

Company, Corporation Trust—An organization formed to provide the physical and mechanical requirements of a corporation, such as directors, stock-transfer facilities, etc. Services of such a company are made available to a number of corporations, thus reducing the amount of "overhead" assumed by each one.

Company, Discount—A company organized to discount accounts receivable of a business organization. By paying cash for such accounts in advance of maturity, the discount company replenishes the working capital of the business concerned.

Company, Holding—A company whose capital is invested in the securities of other companies.

Company, Operating—Applied to companies which pursue an actual line of business as opposed to companies which merely own stock in other corporations.

Company, Parent—The corporation of which another company is a subsidiary.

Company, Subsidiary—A company which is controlled, through stock-ownership, by some other corporation.

Composition—An agreement with creditors whereby they agree to accept a part of the sums owing them in full satisfaction of claims.

Confirmation—In investment operations, a confirmation is a written document from one's broker confirming instructions for the purchase or sale of securities, or reporting their actual purchase or sale.

Contract—An agreement whereby certain actions are to be performed for a consideration.

Conversion—The act of changing a given security holding into a holding of some other security of the same corporation. Thus, if the holder of a company's bonds transfers same, through the offices of the company, into a proportionate amount of the stock, he is converting his commitment. Obviously, the term is only applied where privilege of conversion attaches to the security held.

Conversion Privilege—The privilege sometimes attaching to a corporation's security issues, whereby the holder is privileged to *convert* same into other securities of the same company. Thus, many bonds are convertible into common stock; also, many issues of preferred stock are convertible into common stock. From a corporation's point of view, attaching a conversion privilege to a security-offering has at least two advantages: (1) It helps make the offering more salable and (2) It foreshadows the conversion of fixed-interest bearing securities into "partnership" shares. From the investor's point of view, the conversion privilege is attractive in that it invests a fixed-interest bearing security with some of the speculative possibilities of common stocks. Thus, a bond which is convertible into common stock enjoys all the benefits of a bond; at the same time, the fact that it may be converted into common stock enables its holders to participate in any "boom" which may develop in the affairs of the corporation merely through conversion into common stock.

Corner—The condition under which the entire floating supply of a given security or commodity is lodged in a single individual or group. There have been numerous famous corners in the history of Wall Street, usually disastrous to the speculator.

Corporation—An artificial person, created by the state, for specific business purposes and the liabilities of which are fixed. Usually formed by a group of persons and ordinarily for the conduct of business. Can act like a person in commerce. Ownership is divided into shares, certificates of which are issued to stockholders.

Corporation, Close or Closed—A corporation whose shares are held by a few persons, usually possessing a community of interest, and where the securities so held are not available for public purchase.

Corporation, Domestic—A corporation operating in the territory of the sovereignty which created it.

Corporation, Foreign—A corporation operating outside of the territory of the sovereignty which created it. In the United States a corporation formed in one state, when doing business in another, is termed "foreign".

Cost and Freight—Commonly abbreviated C & F. Prices quoted include original cost of goods and freight charges only.

Cost, Insurance and Freight—Commonly abbreviated C I F. Prices quoted include cost, freight and insurance to destination.

Coupon—A detachable note entitling the holder to collect due interest on a bond.

Cover—The buying in of securities to liquidate a short account. Thus, if an individual, be "short" 100 shares of Steel, the purchase by him of 100 shares will constitute "covering" his short.

Credit—The placing of funds at the disposal of a person or corporation, in exchange for his or its agreement to pay at a deferred date. As an active factor in business and banking it far exceeds in importance any other financial arrangements.

Credit, Bank—In the United States the right to employ bank funds up to a certain amount, in consideration of security or deposits. In Great Britain credit is often advanced without such restrictions.

Credit, Frozen—Any credit which cannot be liquidated at maturity, and which is extended by the grantor of the credit on the assumption that such non-liquid condition is due to a temporary situation.

Credit, Revolving—Usually an international credit, in which future credit is extended automatically so long as the terms of the original agreement are adhered to.

Creditor—Any person or corporation whose claim against a debtor is a just legal obligation of the debtor.

Cumulative—"Remaining as an obligation until discharged". Thus, a stock which is "cumulative" as to dividends is entitled to receive dividends, at an express rate, for every year of operation; and if for any reason the full rate is not paid in any one year, then the amount remaining unpaid becomes an obligation which must be met before any dividends may be disbursed on a junior issue. Many preferred stocks are "cumulative" as to dividends, and the "accumulations" (dividends unpaid) have in some cases mounted up to very large amounts.

Currency—All of the metal, bank notes, government notes, certificates representing coins, etc., which circulate as media of exchange.

Customs—Dues imposed upon imports (in some countries also exports), the schedule of charges of which is termed a tariff.

Debit—A charge-off against a given account.

Debits to Individual Accounts—A banking term, covering checks drawn against individual bank accounts. Quite generally used, in recent years, as a measure of financial and industrial activity.

Debt—Money owed.

Debt, Bad—Uncollectible obligations.

Debt, Bonded—That portion of a corporation's indebtedness which takes the form of bonds, or has been funded, as opposed to current, floating debts.

Debt, Floating—Money owed which has not been funded.

Debt, Funded—Money owed which has been funded through the issuance of bonds in amount equal to the amount of the debt, the maturity of which may be far advanced.

Debt Limit—The borrowing limit fixed by law in respect to municipal corporations.

Debtor—One who owes money to another.

Decedent—A deceased person.

Default—Failure to perform an obligation imposed by a contract.

Deferred Assets—All payments on liabilities accruing in the future that have already been paid. A good example is an insurance premium, which is, in effect, an anticipation of a series of accrued insurance charges over the period covered by the payment. Such assets are not properly current assets, however.

Deficit—A loss from current operations; and excess of liabilities over assets; a shortage.

Deflation—Retrenchment following an economic over-expansion.

Delivery—A fully accomplished transfer of property or evidence of property. Usually used in connection with bonds and stocks. Certain securities are not "good delivery" by which is meant that they do not satisfy the requirements of stock exchanges or the custom of the trade, as being what was legitimately purchased. Typical of a bond that would not be "good delivery" would be *one sold at a certain figure and interest*, from which the next maturing coupon had been clipped.

Demand—An effective economic desire for goods or securities. Demand is not co-extensive with desire but must be evidenced both by the desire to possess commodities and also possession of the means by which they may be purchased. Demand influences supply, and the volume of demand is in turn influenced by the volume of supply. For this reason the phrase "supply and demand", although commonly used, is more of a catchword than an economic description of the factors influencing price.

Depletion—The exhaustion of natural resources through the operation of a corporation engaged in the production of such resources. A "depletion" charge is always provided for by well-managed corporations of this type, to offset the diminution of their assets. Thus, a copper mining company reduces its assets by a proportionate amount with every ton of ore that it mines; the same is true of all other types of mining companies, oil producing companies, etc.;

and unless some provision is made against this gradual exhaustion, the corporation will eventually reach a stage where its actual assets are far less than its true liabilities.

Deposit—The placement of property with another. In certain cases the same goods or property may be demanded as from a safe deposit company. In others, as in bank deposits, an equivalent only may properly be demanded.

Deposit, Demand—Any bank deposit callable at will by the depositor.

Deposit, Time—Any bank deposit which cannot be withdrawn until the lapse of an agreed-upon period, usually more than thirty days.

Depositary—One who deposits.

Depository—A place for deposit.

Depreciation—The decline in the value of a corporation's assets due to wear and tear.

Director—An individual member of the directorate, or board of directors, of a given corporation, elected by its stockholders to assist in the direction and management of its affairs.

Directorate, Interlocking—A board of directors in one company, a considerable proportion of whom are also directors of other companies, ostensibly either competitive or at least not related. Legislation against such directorates has two purposes, one to prevent covert monoply, and secondly to prevent a company being overreached in its dealings with another corporation.

Disbursement—The paying out of funds.

Discharge—A bankruptcy term indicating that the bankrupt can no longer be held liable for the claims scheduled against him.

Discount—Interest deducted or collected in advance; or, the concession in price allowed in exchange for spot cash.

Dividend—The distribution, by a corporation, of a given sum of money, proportionately, among its stockholders.

Dividend, Cumulative—A dividend which is not lapsed by non-payment but which remains an obligation of the company.

Dividend, "Irish"—An assessment; humorous term for the opposite of a dividend.

Dividend, Stock—A dividend payable in the stock of a company. The payment of dividends, in stock, rather than in cash, has at least two advantages from the viewpoint of the corporation concerned: First, it permits the conserving of cash at the same time that some concession is made to the security-holders; secondly, it constitutes a capitalizing of surplus—which is to say, the conversion of surplus into capital stock. From the standpoint of the investor—except in so far as it is of advantage to the corporation in which he owns stock—it is difficult to see any advantage accruing from a stock dividend. The number of shares held by him is enlarged, to be sure; but his individual equity in the corporation remains exactly what it was before. Their salability is, however, increased by reducing the price per unit.

Dollar—Standard United States money, 25.8 grains, 90% gold. Silver dollars are not standard money, but merely currency like quarters and dimes.

Domain, Eminent—The right of the state to take over property upon payment of value. Its financial importance arises from the fact that in certain forms it is delegated to rails and utilities.

Draft—An order drawn by one person upon another person or organization to make a payment or disbursement to a third person. Drafts are ordinarily drawn against bankers. Foreign drafts are customarily termed bills of exchange (which see).

Draft, Documentary—Draft accompanied by a bill of lading or other evidence of shipment.

Duty—Customs dues (which see).

E

Earnings—Income from business or investment.

Earnings, Gross—The operating receipts of a corporation for a given period of time.

Earnings, Net—The balance remaining after deduction of operating expenses.

Eligible—Federal Reserve regulations decree which acceptances are legitimate for rediscount and which are excluded. Such acceptances as are legitimate are termed "eligible".

Entrepreneur—A term borrowed from the French to indicate a person whose contribution to an organization is intangible, but nevertheless important. It was needful to introduce this term to separate the notion of executive and business ability from that of the promoter as such. An *entrepreneur* may be a capitalist as well, and sometimes the term is used loosely to denote capitalists. It is a valuable distinction, however, which should not be effaced. In English, the word "undertaker" in the sense of undertaker of an enterprise has nearly equivalent meaning.

Entry—(1) The recording of a transaction in bookkeeping. (2) The entering of merchandise for the customs officials.

Equipment—The "rolling stock", that is, freight cars, passenger cars, locomotives, etc., of a railroad.

Equipment Trust Certificate—A type of security devised early in the history of railroading as a means of financing the equipment requirements of roads whose credit was impaired. Broadly speaking, equipment trust certificates are secured by the equipment for the purchase of which they are issued, said equipment being either rented or sold to the railroad concerned on terms assuring the retirement of the certificates in advance of maturity. A financial institution acts as trustee in the transaction and provision is generally made for the retirement of portions of the equipment certificate issue at periodic intervals, with the result that the equities of remaining holders are constantly enhanced. Ready marketability of equipment trust certificates and a remarkable record of safety has led to the adoption of this means of equipment financing by most roads, and nowadays resort to equipment trust certificate issues is far from a reflection upon the credit of the road in whose name the issue is made.

Equity—This term is used most generally in finance to indicate the margin, over and above prior obligations, to which a security-holder of a company is entitled. Thus, if a certain value is assumed for the properties, good will, etc., of a given corporation, and if allowance be made for all current obligations, funded debt and preferred stocks, the remaining sum will be considered the "equity" of the junior shareholders. The term is also often used with reference to the income of a corporation, and refers to that portion of the income which is left over after all operating expenses, fixed charges and preferred dividend requirements have been deducted from same.

E. & O. E.—A legal "let-out", standing for "errors and omissions excepted", attached to brokerage statements and other accounts to cover possible errors.

Escrow—Deposit by No. 1, with No. 2 in accordance with an agreement under which the deposit will be delivered to No. 3 in the event of certain stipulated contingencies. No. 1 is known as the obligee; No. 2, the depositary; No. 3, the obligor.

Estate—As commonly used, the whole amount of one's holdings of land and chattels as well as personal effects, securities, etc.

Exchange—The giving of one kind of property for another of the same value. Theoretically an exchange merely gives a man property of the same value as the one he held, but gives him property that is more available for his special purposes. As a matter of fact, however, the foundation for most exchanges is the desire to make a profitable trade, so that strict equivalence is not always evident. "Exchange" also means frequently a building in which transfers of property take place, as a "Cotton Exchange" or a "Stock Exchange".

Exchange, Foreign—The purchase and sale of foreign currency or of drafts to be paid in foreign money.

Exchange, Indirect—The purchase of drafts in a second place, which when sold can be remitted to the place originally intended. For example, if the pound sterling is $4.84 in New York, and the franc is 2.42 cents in New York, yet sterling instead of being quoted at 200 francs in Paris, is quoted at 190 francs in Paris, the purchaser buys francs in New York, obtaining 200, then buys sterling in Paris for 190 francs: net result he has purchased sterling, as originally intended, and owns 10 francs to boot.

Exchange, Par of—The rate at which legal standard currency of one country exchanges for another. Where currency other than standard is in circulation, such inflation lowers the rate at which such currency will exchange. Where standard currency has been increased beyond normal legal limits, similar devaluation will take place from the par of exchange.

Ex-Coupon—Sale of a bond with the coupon for the forthcoming interest payment detached.

Ex-Dividend—"Not entitled to the dividend". Following the decision of directors of a corporation to pay a stipulated dividend, a date is set for the "closing" of the transfer books of the issuing corporation. On and after that date, the stock sells, "ex-dividend", which means that the buyer is not entitled to the dividend, as declared, but forfeits it in favor of the holder up to the last day in which the stock was selling "dividend on"—that is, entitled to the disbursement. The market price of a stock generally adjusts itself to the payment of a dividend, the "ex-dividend" price being lower than the last "dividend-on" price by the amount of the dividend.

Execution—In brokerage language, to act upon an order to buy or sell is an execution.

Exports—The merchandise shipments of one country to all other countries.

Export Point—The quotation reached by foreign drafts, at which it is more profitable to ship gold or silver (where silver is standard money) than it is to deal in drafts. For example if sterling sinks to $4.82, and the British would have to pay $4.86 for gold, provided that freight costs and interest elapsed for time of shipment were less than four cents, $4.82 would be said to be below the export point, or as it is sometimes termed the "Gold point." In stable currencies the spread either way between par of exchange and export points, practically measures the extreme levels of fluctuations in exchange.

Ex-Rights—"Not entitled to subscription rights". The term "ex" is frequently applied to securities and, in general, means that the price has been discounted by the amount of some stipulated happening.

Federal Land Bank—Organization formed under the Federal Farm Loan Act of 1923 to extend loans to farmers. Similar to Joint Stock Land Banks, except that they are part of a comprehensive system. Under the direct jurisdiction of the Federal Farm Loan Board.

"Federal Reserve Act"—The banking act adopted by the Federal Government in the first Wilson administration, whereby a national banking system was created "to permit an elastic currency and to establish a more effective supervision of banking in the United States, and for other purposes." Under the Act, the country was divided into twelve districts, in each of which was set up a Federal Reserve Bank, acting as a fiscal agent of the United States.

Federal Reserve Board—The supervisory board of eight members provided for under the Federal Reserve Act.

Federal Reserve Cities—The cities in which the Federal Reserve Banks (see above) were established, which are

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio.
Richmond, Va.
Atlanta, Ga.
Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas.
San Francisco, Cal.

Federal Trade Commission—Organization created in 1914 to supervise interstate trade with the object of stopping unfair competition. It has other powers, which are minor in significance. A special form of law practice, of great importance, has emerged as a result of the "unfair competition" provisions of the act creating the Federal Trade Commission.

Fiduciary—A person or corporation acting in a trust capacity.

Finance—All money relationships. Government finance is the art of raising revenues, diminishing disbursements and balancing budgets.

Firm Basis—Offer of any securities, or property, not subject to prior sale. Such a quotation gives the prospective purchaser to whom quotation is made the right to purchase at that quotation within the limits of the time covered by the firm offer.

Fiscal Year—Any twelve-month period for which financial statements are made.

Fixed Charge—A charge falling due at periodic intervals, unvarying in amount.

"Flat"—Bonds sold without interest accrued. Also the loan of stocks with premium payment thereon.

Fluctuation—A change in the market value of a security.

Free on Board—Commonly abbreviated F.O.B. Sale in which seller agrees to make good delivery to the railroad company or ship, but to pay no transportation to purchaser. This last does not prevail when quotation reads "F.O.B., freight allowed."

Free Port—Any port in which goods may be re-exported without payment of duty. There are no such ports in the United States. The most famous example is Hamburg, Germany.

Free Trade—The abolition of all customs duties.

Funding—Conversion of temporary loans into fixed loans. When this funding is again contemplated with respect to the fixed loan, the operation is termed "refunding".

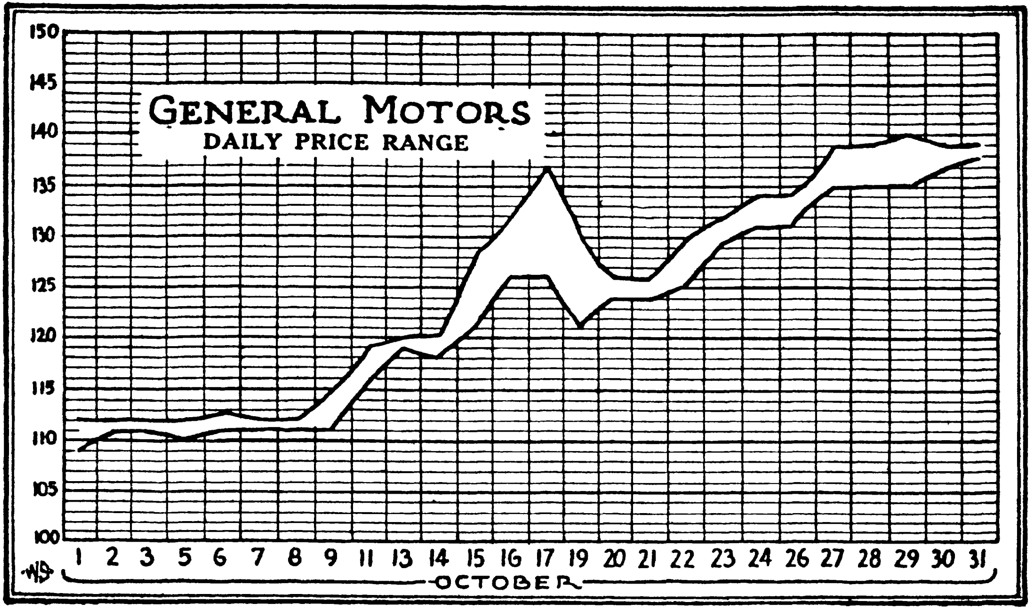
Futures—The purchase or sale of a commodity on terms not requiring actual delivery until some future date. A form of contract quite generally used in the wheat, oats, cotton and other commodity markets, where so-many bushels (or bales) are bought and sold for delivery in December, January, February, etc. The month named, in a futures contract, is the month in which the contract matures; thus, the buyer of January wheat who does not liquidate his commitment before the month is run out will have to accept actual delivery of his purchase, whereas the seller will have to make actual delivery.

Gilt-Edged — Figuratively, "rimmed with gold"; literally, securities of such substantial merit as to preclude any doubts as to their investment qualifications.

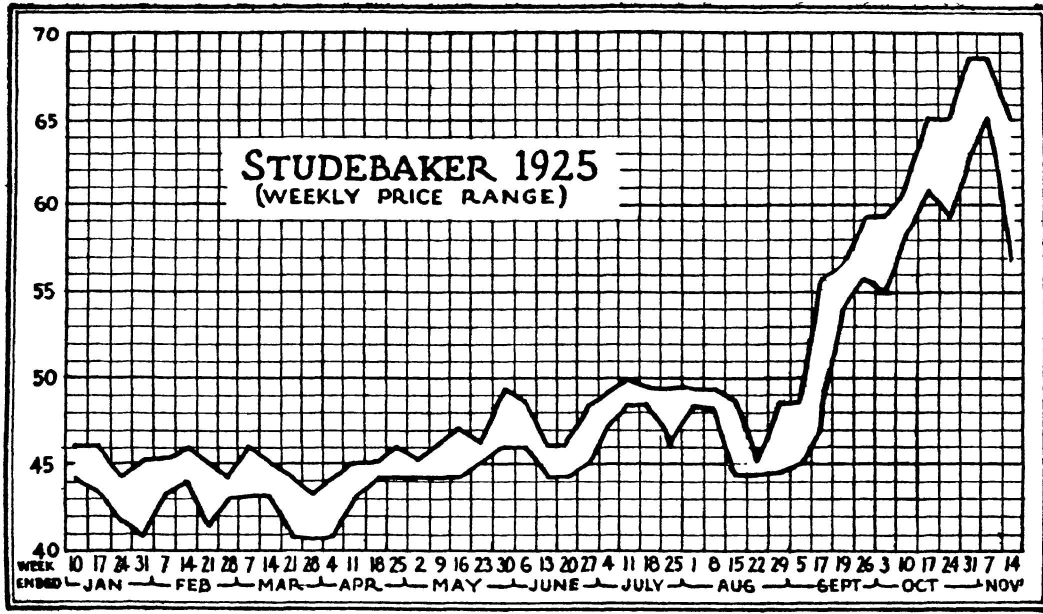
Good Delivery—A security which has been properly endorsed and is in good physical condition which the buyer is compelled to accept as a delivery from the seller.

G. T. C.—Abbreviation for the term "good till cancelled". A type of order entered with one's brokers when one wishes to buy a certain stock and is willing to pay a certain price for same and authorizes his broker to continue to endeavor to purchase said stock for him, at the named price, at least until instructions are given to the contrary. Differs from a "day order" in that the latter is "good" only for the day, and must be renewed on the following day if it is not to be considered automatically cancelled.

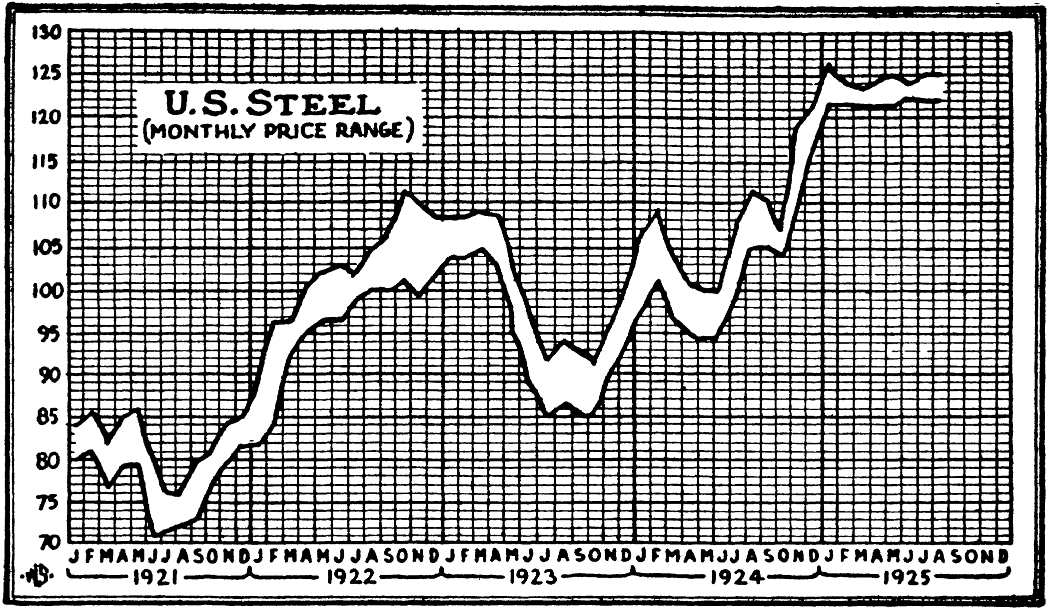
Good Will—"Good Will" may perhaps be said most accurately to represent the valuation placed upon the trade name of a given corporation. Where a corporation has a record of fair dealing, both with trade-customers as well as with the public, its goods will be salable where those of some other corporation may not be. On this basis, the corporation's "good will" becomes a substantial item, worth dollars and cents to its owners. Something along the same lines may be said of a corporation which has advertised extensively and made its name known to a far greater number of people than other corporations in the same field: Its products will be recognized and, probably, purchased where those of the other companies will not. Unfortunately, the "good will" of a given corporation seldom survives a change in policy—is itself so indelibly associated with the founders and builders of the company as to almost certainly pass with their passing—unless successors appear capable of maintaining the same "character" for the company. As a result, the real value of a company's good



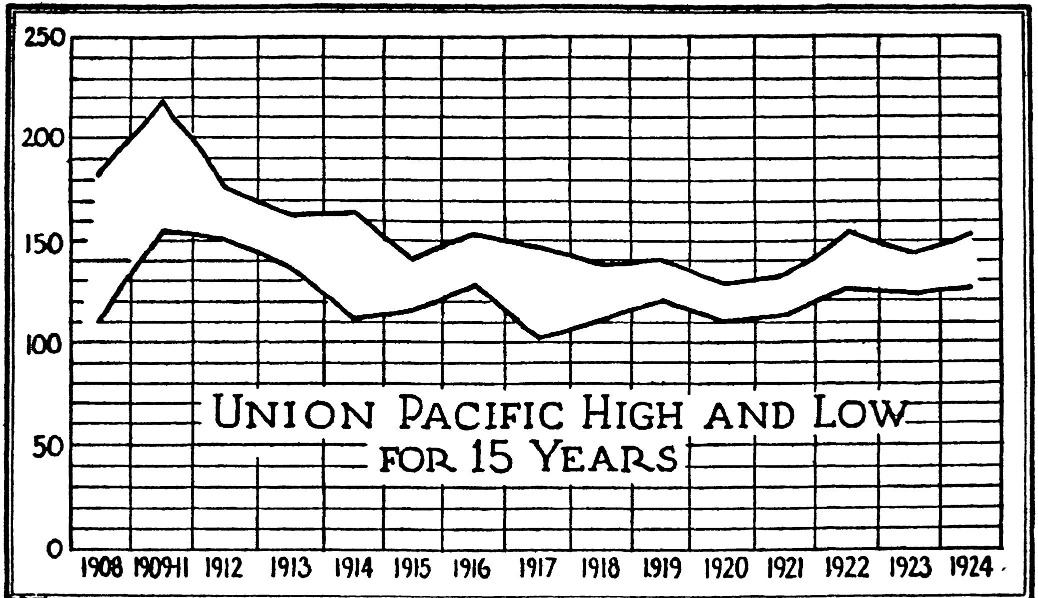
GRAPH—DAILY PRICE RANGE OF A TYPICAL STOCK



GRAPH—WEEKLY PRICE RANGE OF A TYPICAL STOCK



GRAPH—MONTHLY PRICE RANGE OF A TYPICAL STOCK



GRAPH—YEARLY PRICE RANGE OF A TYPICAL STOCK will must always be a doubtful item, and one subject to complete revision in event of any metamorphosis in the company itself.

Grace, Days of—Allowance of three days in which to meet a note, extended beyond maturity date. Invalid in some states.

Grain Market—Grain is the oldest object of organized exchange and speculation. The Chicago Board of Trade, Winnipeg Grain Exchange, Liverpool, Hamburg and Paris are important centres.

Graph—A diagram showing by curves or otherwise the course of prices, volume of transactions, activity or other data,—relating generally to securities or commodities,—either over a period of time or in comparison with other similar figures.

Guarantee—In bonds, the agreement of one corporation (or, rarely, a person) to meet either interest or principal or both in the event of a default by the obligor. There are many degrees of guarantee, and many of them are contingent or uncertain, and others are made by corporations financially no better than the obligor. Does not give added value to a bond unless exact nature of guarantee is given.

H

Heavy—A descriptive adjective applied to that type of stock market in which stocks seem to fall in price of their own weight, without any external pressure being applied. The opposite of a "buoyant" market.

Hedge—The purchase of one stock to offset possibilities of a loss in some other stock. "Hedging" can be one of the most skilful operations involved in spec-vesting. Properly applied, it presupposes going long of (buying) one stock likely to rise in value and going short of (selling) another equally likely to decline. The presumption is that, in a declining stock market, the stock sold short will decline more quickly than the one purchased, and vice versa. The art requires a very keen sense of values; but when practiced wisely, it is probably one of the nearest approaches to certainty which the speculative field offers.

Hypothecate—To deposit as security for a loan.

Imports—Products of foreign countries sold in a domestic market.

Inactive—As applied to securities, or to a securities market, means "productive of few transactions" or "bought and sold infrequently".

Income—The receipt or the accrual of wealth by any person or corporation.

Income, Gross—Those earnings of a company attributable to it after deduction of cost of goods produced and operating expenses from gross sales or gross earnings.

Income, Net—Used in two senses. The more usual contemplates earnings remaining after a deduction for all costs save bond interest. The second and less usual contemplates such income as is available for the stock issues.

Income, Other—Accounting phrase covering such corporate income as is not derived from its ordinary commercial or industrial operations.

Index Number—A "number" which is supposed to indicate the relative position of some commodity, or group of commodities. Thus, the average price of pig iron in all of the chief markets may be considered an "index number" of the price of pig iron throughout the country. There are many index numbers, some compiled by Governmental departments, others by private concerns and individuals. Each one is intended to accurately portray the position of some commodity or commodities, in terms of price, output, supply, etc.

Indorsement—The inscription of the name of a person, by himself, on the back of any commercial or financial document by which the person so writing agrees to accept the liabilities accruing by reason of that note in the event of its default. Where indorsement is effected "without recourse", the indorser while not liable on a default is liable for defects in the document itself.

Inflation—Fundamentally, a decline in the purchasing power of the circulating medium.

Insolvency—Inability to meet financial obligations.

Insurance—The indemnifying or "protection" of an individual, or group, against some specified contingency; as:—

Insurance, Accident—Indemnity against the contingency of a certain type of accident, resulting in bodily injury.

Insurance, Annuity—An insurance policy under which, in consideration of a single premium, the beneficiary (or "annuitant") is guaranteed an express income for the balance of his life.

Insurance, Credit—Insurance supplied business organizations covering the risk of losses due to the insolvency of debtors.

Insurance, Disability—Assurance against loss of potential earning power by reason of sickness, etc.

Insurance, Fire—Residential, factory or public building insurance against the fire risk.

Insurance, Life—Indemnity against the contingency of death.

Insurance, Term—A temporary form of policy, insuring the policy holder only for a stated term. Attractive by reason of its cheapness.

Interest—The cost of money over a given period. The premium which the present use of money enjoys over its future use.

Interest, Compound—Interest on principal and accrued interest.

Interest, Rate of—The percentage which interest costs bear to the principal amount involved. Interest rates are divided by economists into pure rates of interest, and those where some other factor such as risk, is involved. For example, a government bond selling to yield 3.75% commands a pure rate of interest, whereas a weak industrial bond commands 8% interest, of which 3.75% would be pure interest and 4.25% risk charges.

Interest, Simple—Interest on principal alone, disregarding interest accruals.

Interstate Commerce Commission—Commonly abbreviated I. C. C. That body of men, appointed by the United States government, controlling transportation companies, both as to rates and financing, and also over communication companies in interstate traffic.

Intrinsic—A term used to convey the actual worth of an enterprise, or of securities representing the enterprise.

Inventory—The supply of raw material, goods in process and completed products on hand in a given corporation.

Investment—Originally, the purchase of any property for the purpose of deriving income therefrom. More recently used in a narrower sense to cover such purchases only when the property possesses substantial intrinsic merit and possesses income-producing abilities of a high order.

Investor—One who makes investments on his own account.

Invisible Supply—That portion of a crop not in the hands of warehouses, brokers, or en route. Usually applies to such crops as are in the hands of the original growers, etc.

Issue—A term applied loosely to cover any of the securities issued by a given corporation.

Lamb—A Wall Street term which is less frequently heard nowadays than it was twenty years ago when it was applied generally to all inexperienced speculators who purchased stocks in the hope of reaping profits. The similarity between such persons and lambs come for shearing, accounts for the origin of the expression.

Land Grant—Gifts of large tracts of land by the government, usually those made to Western railroads to encourage building of the railroad. Land Grant bonds are still met with in railroad finance.

Leased Line—A railroad or a public utility property which is leased to another corporation. Lessee agreements often call for financial arrangements such as guarantee of interest on bonds of the leased line, etc. Practically all large railroad systems include such lines.

Legal for Savings Banks—A classification of bonds which conform with state banking laws and therefore are investments in which the funds of savings banks may be legally invested. Such bonds are presumed to possess investment merits of an especially high order, since it was to avoid the investment of savings funds in doubtful mediums that the restrictive state banking laws were enacted.

Legal Tender—Coins and other moneys which may be tendered in payment of a debt and which, under the laws of the country, must be accepted in satisfaction.

Letter of Credit—A document issued usually by banks, but sometimes by commercial houses in which their correspondents are called upon to make certain payments to the beneficiary of the letter.

Liability—An outstanding obligation of a corporation.

Liability, Capital—That portion of a corporation's outstanding obligations represented by bonds and stocks, as issued.

Liability, Contingent—A liability which depends for its operation upon the occurrence of a stipulated contingency.

Liabilities, Current—All outstanding liabilities which become due and payable generally within a period of one year of the date of a given statement. Includes, generally, bills and accounts payable, accruals of dividends and interest, and all other "current" items.

Liability, Double—Obligation of owners of National Bank stocks to pay up to twice the par value of their holdings in order to maintain the solvency of the institution.

Lien—A legal claim upon stipulated property.

Lien, Prior—A legal claim upon a given property which must be satisfied prior to, or before the satisfaction of, other claims upon that property.

Liquidate—To transform a static property asset into a liquid asset. Broadly speaking, to convert property having a money value into money.

Listed—As applied to securities, means that such securities have been duly entered and admitted to trading on a given security exchange, as opposed to securities which have not been listed and may not be dealt in on said exchange. Not a criterion of the investment merits of a given security, although serving as a means of determining where the security may be bought and sold.

Loan—The transfer of funds upon consideration of payment in the future.

Loan Limits—The National Bank Act and most state banking laws specify a maximum percentage to total capital and surplus of banks that can be extended to any one borrower as loan accommodation.

Long—A speculative term, applied to holders of securities as opposed to those who have either "sold out", or are "short" of the market. "Going long" means buying.

M

Maintenance—Expenditures and outlay involved in keeping up the condition of a railroad property.

Manipulation—Artificial methods employed in advancing or depressing the market price of a security. Object of the professional manipulator is to encourage public buying or selling.

Margin—That portion of the entire purchase-price of a security—or commodity—commitment which the buyer is required to deposit to cover any possible fluctuation in price up to the time the holding is paid for outright or is liquidated. Marginal requirements exacted by brokers vary with circumstances, and also with commitments. General average, however, is one-third of the market value.

Margin of Safety—A term used in appraising railroad securities; significance is today nominal.

Market—A place where securities or commodities are exchanged. A secondary use, derived therefrom, is in reference to active exchanging of goods or commodities as a "lively market", etc.

Market, Open—Any market outside of an organized exchange. Sometimes termed outside market, or unlisted market.

Marketable—Readily salable.

Matured—Due and payable.

Maturity—The date upon which an obligation becomes due and payable.

Merger—The consolidation of business enterprises, formerly operated as distinct entities.

Mint—An establishment for the coining of money. The principal U. S. mint is in Philadelphia. San Francisco and Denver have mints.

Money—The standard of value and medium of exchange. In both capacities the use of money is universal and ultimate. Standard money is the ultimate measurer of value, but other money, such as silver, may be employed to effect smaller transactions, but it is measured by gold, as well as the commodities it exchanges. Money arose in the sixth century B.C., causing the greatest economic revolution in history. It rapidly superseded barter, and today is itself being economized by the use of credit and credit instruments.

Money Order—An order, usually made by a post office or express company, to pay a comparatively small sum to the recipient. These orders are paid for in cash, with a small additional fee, by the sender.

Money Order, Telegraphic—The transmission of money by telegrams, involving two costs: the money order cost and the telegram cost.

Money Rates—The prevailing rates at which money may be borrowed. Rates vary according to whether money is borrowed for a period of time (Time Money) or is borrowed subject to repayment on demand (Call Money). The former is supposed to reflect the long trend of credit accommodations, while the latter reflects existing conditions. Money rates are consulted assiduously, since it is the supply, or lack of supply, of credit which enlarges or restricts any market operation.

Monopoly—The control of a certain commodity, group of commodities, or services by one group. The economics of monopoly prices are wholly different from those obtaining in competitive markets. Monopolies in trade are illegal in the United States.

Moratorium—The suspension of credit and debt payments for a specified period, usually in a national emergency.

Mortgage—Literally, a "dead pledge", or an "outright pledge" of property as security for loan, voided by satisfaction of the indebtedness.

Mortgage, Amortized—A mortgage borrowing, principal amount of which is reduced by periodic payments.

Mortgage, Blanket—A mortgage which covers an entire property, as opposed to specific portions thereof.

Mortgage, Closed—One which cannot be altered.

Mortgage, First—Properly, the ranking mortgage on a given property.

Mortgage, Junior—One which ranks after other mortgages on the same property.

Mortgage, Open—Subject to enlargement under the terms of the indenture agreement.

N

Negotiable—Any evidence of property having a market.

Nominal—"Existing in name only". Thus, a nominal value is an arbitrary valuation accorded a given property which is not necessarily presented as being its actual value, but it rather an approximation thereto.

Non-callable—A bond or preferred stock that cannot be retired before maturity date.

Note—A written promise to pay. When unsecured, makes the holder a general creditor.

Note, Short-Term—Corporate note, usually unsecured, running for five years or less. An important feature of the investment market, as such notes are widely bought for temporary investment.

O

Obligation—A debt enforceable at law.

Obsolescence—The decline in the value of tools, apparatus and other equipment of a corporation resulting from the perfecting of new and more efficient types.

Odd Lot—A block of less than 100 shares of stock, which latter is known as a "round lot".

Offer—A tender of property to a prospective purchaser, at a quotation.

Offerings—New issues of securities.

Operating Ratio—The ratio of a railroad's gross operating expenses to its gross operating income.

Option—A contract under which the buyer may require the delivery of a given stock, in a given amount, at a given price within a stipulated term from the seller; or under which he may require acceptance of such stock. Puts and Calls are "options"—also sometimes known as "privileges".

Order, Cross—An order to buy stock, simultaneous with an order to sell an equal quantity of that stock, when both are received by the same broker. When such an order is not in good faith, but to give an appearance of activity in a stock at constantly rising prices, it is termed a "matched" order. When such an order is in good faith, the broker must execute the order; failure to do so by matched book entries is practically synonymous with "bucketing".

Other Income—That portion of a corporation's income which is derived from other sources than the field in which the corporation itself is engaged.

Overcapitalization—The assumption by a corporation of capital liabilities in excess either of its worth, or of its capacity to pay, or both.

Overhead—Recurrent expense items accruing from the operation of a corporation other than those representing the cost of materials and labor. Included in "overhead" costs would be rents, salaries, lighting, heating, etc.

Oversold—Sold to excess. Used to describe individual securities, or markets, whose short selling has assumed undue proportions.

Over-the-Counter—Unlisted.

Overtrading—Attempting to swing a larger amount of securities than one's capital permits. One of the commonest faults of the average speculator—and one of the most disastrous.

Panic—A crisis arising out of acute deflation, either in real estate, securities or commodities, and sometimes in all three. One of the most artificially-wrought of all panics, perhaps, was the "Black Friday" panic, in 1869, following the attempts of Jay Gould and Fisk to corner the country's supply of gold. Another famous panic was that of the year 1901, following a contest between huge banking interests for control of the Northern Pacific Railroad. The general panics were in 1816, 1837, 1857, 1873, 1893, 1907. Panics bring opportunities for the purchase of desirable securities at unduly depressed prices.

Paper—A term used to describe all types of promissory notes, bills of exchange, etc., which serve as negotiable credits in the business and financial markets.

Paper, Best—Drafts, etc., representing organizations, institutions or individuals whose credit is of particularly good quality.

Paper, Commercial—Negotiable instruments issued in business, generally.

Paper Profits—Profits which have not yet been "taken" through sale of the security, or liquidation of the commitment, which has made a profit available. Thus, the buyer of 100 shares of U. S. Steel, who sees an advance in the price of his stock from 110 to 120 has a "paper" profit of $10 per share, or $1000. This continues to be a "paper" profit until the 100 shares have been sold; after which, if the sale be made at 120, the "paper" profit is converted into an actual profit of $1000.

Par—The official value of a security. Thus, in the organization of a company, the stock of that company, considering all assets and liabilities, may be declared to have a standard value of $100 per share; this then becomes its "par" value. Note should be made that the mere assignment to a stock of a "standard" or "par" value of $100 is no assurance of its "real" value; the latter must vary with the progress of the company and the accuracy with which directors evaluate their plants and other assets. In fact, variations between par value and actual value have, at times, been so great, the attributing of any "standard" or "par" value to a security has, in large measure, passed out of fashion. In recent years, the bulk of security offerings have been on a "no par value" basis—which is to say, no attempt has been made to fix an arbitrary value for the securities. As a result, there has been a little less confusion, and a great deal less misrepresentation.

Peg—The fixing of a quotation irrespective of what price would result in an open market. Used generally to indicate that a government is supporting a fixed quotation on its currency abroad.

Per. Pro.—Sometimes abbreviated p. p. Indicates that person signing is doing so by virtue of a document limiting his authority to sign. Distinguished from the signature of a partner, or of the officer of a corporation.

Pit—A sub-section of a commodity exchange, for trading in one commodity. Usually a sunken area in the floor.

Point—A price unit. In a stock, one point means a price-variation of $1 per share, unless the stock be selling on the basis of cents per share, in which latter case a change of 1 point means a price-change equivalent to 1-cent per share. Except in very low-priced stocks, trades are made in not less than eighths of a point, which is to say that, between one point and the next succeeding point, transactions may be made at only eight different figures, viz., one-eighth, one-quarter, three-eighths, one-half, etc. Thus, if the last sales of a stock have been at 80½, the next lower point at which a sale may be made will be 80⅜, and the next higher 80⅝. In low-priced stocks, trades are often made in sixteenths of a point. In commodities, 1-point generally means 1-cent per unit of measurement; thus, in the grain markets, a change of a full point means a change of 1-cent per bushel dealt in; while intermediary fluctuations are on a decimal basis.

Policy—A contract between an insurance company and the party insured.

Policy, Tontine—A policy in which premiums are paid by each member of an age group, and dividends are disbursed to the survivors. The last survivor of the group inherits all. Invented in the seventeenth century by Tonti, a Neapolitan economist, this scheme of insurance was for a hundred years more popular than life insurance. It is now very secondary, and in some jurisdictions is conceived to be against public policy, since it gives each surviving member of an age group an interest in the death of others.

Pool—In Wall Street, a pool is merely a pooling of the funds of the principals involved, for the purpose of attaining some desired purpose. Pools of this kind are formed in the belief that the combined funds of several individuals (or groups) will be more effectual in advancing or depressing the price of a stock than would the funds of any one individual member of the pool. In other words, Wall Street pools, in the last analysis, are organized for the purpose of moving stock prices by what might as well be called "main strength"—coupled with scientific manipulation.

Pool, Blind—A pool whose members agree to let the manager choose the security or securities for manipulations, of which they are to remain ignorant until the transactions are closed. Sometimes termed a "discretionary pool".

Position—In brokerage parlance, a "position" is a long or short balance in security. Thus, if a firm be the holder of 100 shares of a given security, it has a long position of 100 shares, and vice versa.

Post—A Stock Exchange term for a stand at which a certain group of stocks are dealt in. Bonds have posts also, and there is a "money post" for demand and time loans. The functions of the last have changed recently.

Postal Savings—Accounts with the United States Post Office, minimally to $1 and maximally to $2500. Postal savings cards are issued for sums less than one dollar. Interest is payable at 2%.

Price—Theoretically, the amount of money, per trading unit, which a certain property will fetch at sale. In practice, there are many kinds of prices; thus:—

Price, Actual—The price received in a transaction.

Price, Asked—The price which the holder of a property (of whatever kind) asks for same; but not, necessarily, the price he will finally consent to take.

Price, Average—Over a period of time, the level midway between the highest price at which a security, or other property, has sold and the lowest. (See "Averages.")

Price, Bid—The price which the would-be buyer of a property declares himself to be willing to pay; but not, necessarily, the price he will finally consent to pay.

Price, Closing—In respect to securities, or commodities, the last price at which a transaction in a given unit was made during a stipulated session of the market.

Price, Cost Plus—A price charged for a manufactured article, made up of the cost of that article to the manufacturer plus a given percentage, recognized as his profit.

Price, Current—The price prevailing at the moment.

Price, Firm—A stipulated price-level, for a definite period.

Price, Offered—Same as "Asked Price" (which see).

Price, Opening—The price at which the first transaction is registered, in a given security or commodity, during a given session of the market.

Price, Quoted—In respect to securities, the Bid price, placed opposite the Asked price. Thus, if 120 be Bid for U. S. Steel, and if 121 be Asked, the quoted price will be 120-121.

Privilege—In brokerage language, a contract such as a put, or a call, and the related procedures of "spreads" and "straddles". (See "Put" and "Call".)

Profits, Undivided—Banks frequently retain profits not disbursed as dividends in this category, before definitely transferring such profits to surplus account.

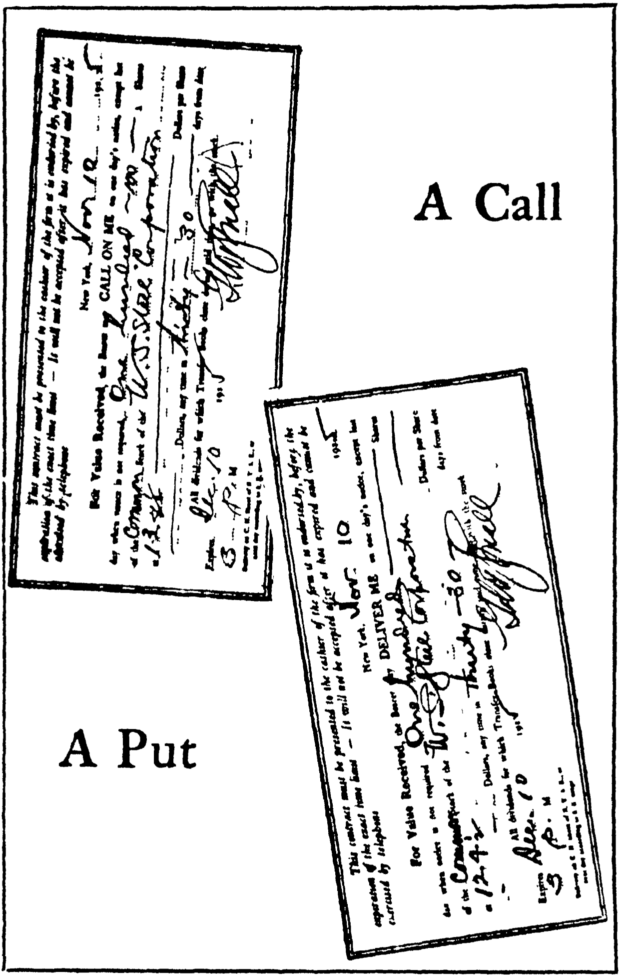
Profit Sharing—A plan by which employees, in addition to their wages, receive dividends based upon earnings of the employing corporation. In certain companies the stockholder should scrutinize this factor.

Promoter—An individual who obtains the financial backing for a commerical enterprise. The term "promoter" has fallen into no little disrepute in recent years due, no doubt, to the activities of numberless individuals who, in the guise of "promotion" have assisted in perpetrating swindles and fakes on the investment public. As a matter of fact, the honest promoter is not only a constructive influence in the community, but he might even be called an essential factor in the development of business and industry. Acting as the "middle man" between persons having money and organizations requiring funds in order that they may function, the promoter, in a sense, starts the wheels of industry, and helps keep them running.

Public Utility—An arbitrary term used as a means of classifying companies engaged in business of an essentially public nature, which, as such, are subject to the supervision of public authorities. In this category, fall traction companies, gas, electric, light and power companies, water companies, interurban railroads. Steam railroads and extended railroad systems are excluded.

Put—"Put" is the opposite of a call (which see). Briefly it is a form of option which entitles the buyer to *deliver* a certain stock within a certain period to the seller of the put at a stipulated price. "Puts" are purchased, obviously, by those who believe the stocks concerned are going to decline in price, since it is the difference between the price named in the put and the price at which the stock may be bought for delivery to the obligee which constitutes any profit to be derived.

Pyramid—Use of paper profits in order to enlarge security holdings. Thus, the buyer of 100 shares of Steel stock sees it advance 10 points in price, which means a "paper profit" to him of $1000. On the basis of this "paper profit", he buys as much more Steel as his brokers will permit him to carry on $1000 margin; again the price of Steel rises, and once more the paper profit is made the basis for an additional purchase. Eventually, nine cases out of ten, the original buyer has a total holding of Steel which he cannot afford to carry, and which only his paper profits enabled him to buy; as a result, his commitment has become top-heavy,


A Call
A Put

so that any reaction in the market finds him unable to maintain his position, and compels him to sell. Generally, such pyramids are enlarged so long as the stock concerned continues to advance; and, likewise generally, the reaction in the stock, after a large and uninterrupted advance, is substantial. It is for this reason that most pyramiders get in trouble. They are carrying the biggest line of stock when the down-turn begins. The opposite of pyramiding might be said to be the practice of buying all of a given stock one can afford to carry on the initial transaction, and then selling out, parcel by parcel, as the stock advances. On this basis, assuming an uninterrupted advance, the least amount of stock would be held at the highest point reached.

Q

Quotation—See "Price, Bid," "Price, Asked," "Price, Quoted."

Rate—A comparatively fixed charge, often imposed by outside authority, as in railroad, gas, electric, water, street car charges, etc.

Ratio—A term used by statisticians, such as the ratio of current assets to current liabilities. Ratios are as numerous as the permutations and combinations of accounting terms permit, and they vary from highly informative to trivial and misleading, accordingly as they are significant or non-significant indexes to a corporation's asset position or earning power or ability to liquidate.

Redeem—The repurchase of a security at a stipulated price, by the issuing company, following its public sale.

Red Ink—A symbolical phrase indicating that a company is losing money. Used as in "Last year interest charges were earned three times, but this year earnings are in red ink".

Rediscount—The discounting of paper which has already been discounted. A standard practice of Federal Reserve institutions, which rediscount paper previously discounted by member institutions.

Registrar—A financial institution, ordinarily a Trust Company, which is appointed by a corporation to certify that the name in which a certificate is held, is actually the name recorded on the stock books. It keeps a formal record of stockholders. In many other ways it checks the activities of the transfer agent, who is often an individual.

Regular Lot—Except in inactive stocks, 100 shares is a regular lot on the New York Stock Exchange. Cotton round lot, 100 bales; wheat and corn, 5000 bushels.

Renewal Rate—The money rate, at which demand loans are automatically renewed every morning on the Stock Exchange.

Rent—In orthodox economics, the differential annual value of land, whether by location or fertility. Rent is held not to be included in costs, since it measures the superiority of one piece of land over another in facilitating production or exchange at the same price level as in other inferior parcels. It is held to be an economic category—that is, it exists as a factor in the production of wealth whether it is paid by one to another or not. In more recent economics rent has been held to include all payments on behalf of monopoly advantages, even where not connected with land. Land rent has the economic peculiarity that a tax thereon cannot be shifted from landlord to tenant. Vulgarly rent is held to include payments for building as well as land, but economists frown upon such an unanalyzed use of the term.

Rentes—A European term for annuities. Annuity bonds of this type are very popular on the Continent of Europe.

Reorganization—A step, subsequent to receivership, in which a corporation's capital structure is modified. Creditors, bondholders and stockholders accept new issues of securities either unchanged from their old, or on a scale down, or in new types of securities. Such reorganizations fit the capital liabilities of the corporation to its earning power.

Replacements—Principally used in railroads to indicate substitution of new physical property for old, as distinguished from betterments and additions which add to the value of its properties.

Repudiation—The refusal by the obligor to pay his obligations. Very common among governments, and was characteristic of American states before about 1885.

Reserve—A sum taken out of the profits of a corporation and set aside, in a separate fund, for some definite purpose.

Reserve for Depletion—A reserve fund to offset the exhaustion of a company's stores of natural wealth.

Reserve for Depreciation—A reserve fund set up to counterbalance the depreciation of a corporation's properties or equipment.

Reserve Banking Fund—A reserve fund established for the purpose of redemption of bonds, or other indebtedness, at maturity.

Resources—All the net property of a corporation. In banking the deposits plus capital, surplus and undivided profits.

Return—The current income from securities, or the yield to maturity. Also employed in term "income tax return" for a report.

Rights—A privilege sometimes accorded stockholders of a company in connection with a new security-issue, and entitling them to purchase the new security on more attractive terms than those offered to the outside public. Thus, it would not be unusual, in the case of a company whose common stock was selling at 120, for it to offer new stock at 120 and give stockholders the right to subscribe at 115—or 5 points below the price quoted to the general public. In such a case, the "rights" would have a real value; and, since rights are transferable, it would be possible for stockholders to realize that value either by exercising their rights, or selling same in the open market. To figure the value of rights, follow this illustration: Assume the present price of the stock to be 120, and that stockholders be given the right to subscribe to new stock, up to 10% of their holdings, at 115. In that event, the holder of 100 shares, valued at $12,000 would be privileged to purchase 10 new shares at 115, to cost him $1150. He would then have 110 shares worth all-told, $13,150, or an average of about 119½. Given the prevailing market price for the stock of 120, it is clear that the rights of this investor would be worth the difference, or approximately ½ point each.

S

Sale—The passing of property from one person to another for a price consideration.

Sale, Wash—Practically a rigging of the market by means of matched orders. (See Orders, Cross.)

Scalper—A speculator who gets in and out of a stock quickly, and for a small gain. Usually a broker, since commissions would make such a procedure too costly for outsiders.

Scrip—Certificate for a fractional share of stock. Not entitled to dividend, while remaining scrip. When sufficient fractional scrips are accumulated, they can be converted into certificates for even numbers of shares. Usually a result of a scrip dividend.

Securities—All certificates indicating either stock ownership, or the more formal bonds and notes of corporations and governments.

Shares—Subdivisions of capital stock.

Short Haul—A railroad term applied to the transportation of freight over a short distance.

Short Account—As said below, short selling is practiced widely by the professional element in Wall Street—that is, by those who make a business of and attempt to make a living from buying and selling securities. It follows, then, that there is always a certain proportion of the Wall Street element which is *short* of stocks. This element, considered collectively, is known as the "Short Account", or the "Short Interest". Much energy is expended in The Street in the effort to detect the "size" of the short interest, either in some one stock, or in the entire market, the theory being that the larger the short interest, the greater will be the buying demand in event of a sharp advance in the market level.

Short Selling—A widely-used method of trading, selling short (or short selling) is probably as little understood by the layman as any practice in Wall Street. Fundamentally, it is simplicity itself: The speculator, seeing a stock which he believes is selling too high, decides that the stock is about to decline, and wishes to profit from that decline. He instructs his broker to sell for him 100 shares of the stock. The broker thereupon borrows 100 shares of the stock from some owner, on terms, and this stock is delivered under the transactions to the buyer. Eventually, we will suppose, the stock in question declined 5 points in price. Thereupon, our speculator instructs his broker to buy in 100 shares of the issue for him. This is done, and the 100 shares so purchased is returned to the quarter from which 100 shares had previously been borrowed. As the speculator bought stock in at 5 points less than he sold stock for, previously, it follows that he has made a profit of 5 points on the transaction. That, in a broad, loose way, is the procedure followed in selling short.

Specialty—As applied to securities, means the stock of a company which occupies a unique position, in some important respect, and which may therefore be expected to move more or less independently of the rest of the list.

Specie—Metallic currency as opposed to paper currency.

Speculation—In its modern connotation, a "speculation" is the purchase, or sale of a security or commodity in the hope of realizing a profit from a subsequent price change. Differs from an investment basically, in that the latter is entered into for the purpose of securing a satisfactory income on funds employed. Speculation is not, in any sense, gambling. To be successfully practiced, it requires great natural aptitude, keen perceptions, adequate capital and copious knowledge.

Spread—A combined put and call with two prices. Also used for an arbitrating transaction. (See "Exchange, Indirect" for the theory of such trading.) "Spread" is also used to describe a mere difference in prices.

Straddle—A combined put and call with only one price.

Stock—The share capital of a corporation.

Stock, Common—The junior security issued by a corporation, entitled to dividends only after stipulated interest and dividend rates of senior securities (bonds and preferred stocks) have been paid, and sharing last in assets in event of liquidation. Sometimes known as "partnership shares", since the common stockholder occupies, in a broad sense, the position of a partner in the business. Voting power and control generally lodged in this class.

Stock, Convertible—A class of stock whose holders are entitled, under the terms of issuance, to convert same into some other class.

Stock, Cumulative—Stock which is entitled to dividends at a stipulated rate and on which dividends accrue, if unpaid.

Stock, Double Liability—Shares upon which, although fully paid, the holder is liable for assessment up to the par value. Bank Stocks carry this double liability.

Stock, Full-Paid—Stock on which the full, par value has been paid in by subscribers.

Stock, Guaranteed—A stock which is guaranteed as to dividends or principal, or both, by some corporation other than the issuing corporation. Many railroad stocks fall in this category, representing companies which have been leased by larger corporation under terms involving a guarantee of the type specified.

Stock, Participating Preferred—Preferred stock which is not only entitled to receive dividends at a stipulated rate before any disbursement may be declared on a junior issue but which also enjoys a participating right in disbursements over and above a fixed rate on the junior issue. Thus, a representative Participating Preferred Stock would be one entitled to receive 7% dividends before anything could be paid on the Common and which was entitled to $1 per share for every $1 declared on the Common after the Common had received $5 per share. In this case, for the first $2 extra on the Common, the Preferred would receive a total of 9%, or $9 per share.

Stock, Part-Paid—Stock the entire par value of which has not been paid in by subscribers.

Stock, Preferred—Stock which enjoys a preference over junior issues in claim either upon earnings or assets or both in the amounts specified.

Stock, Watered—Stock which has been issued in an amount far exceeding the values established back of it. Common stock of the U. S. Steel Corporation was an outstanding example of a "watered stock" at the time of issuance, when the assets of the Corporation, by comparison with the capitalization, were so small that, in event of liquidation, there would have been little if anything available for the common shares. The expression "watered stock" is believed by some to have originated with Daniel Drew, an old-time Wall Street manipulator: In his early, cattle-droving days, Drew is supposed to have devised the scheme of feeding his animals all the salt they would eat and then, when they were burning with thirst, supplying them with all the water they could drink. As a result of excessive drinking, the sides of the cattle would fairly bulge, and, to all appearances, they would be exceedingly fat, sleek creatures. Manifestly—until the fraud was discovered—Drew could sell this "watered stock" at fancy prices, even though the real values were not there.

Stop—A "stop" is a form of order, given to one's broker, calling for the purchase or sale of a security, at the market, as soon as that security reaches a specified market price. The order is used as a means of protecting speculative accounts against excessive losses. Thus, the holder of 100 shares of Steel, purchased at 120, may wish to be sure that he will not lose more than 5 points in the stock, in the event of a price-reaction. He thereupon enters a "stop order", instructing his broker to sell out his Steel in event of the price declining to 115. As soon as the price named in a "stop" is reached, a stop-order becomes an open order, and for this reason the price actually secured for a stock which has been "stopped" is sometimes considerably less than that mentioned in the stop itself.

Surplus—Excess of revenues over expenditures, or excess of assets over liabilities.

Surplus, Earned—A surplus built up from accumulated profits.

Surplus, Profit and Loss—Same as "Earned" surplus. Distinguished from capital surplus and mere bookkeeping surplus.

Syndicate—A financial group organized for the purpose of underwriting a security issue.

Talon—A part of a bond certificate enabling the holder to obtain a new coupon sheet, when all the coupons on the former sheet have been detached and paid.

Tangible—Real. Actual.

Tariff—A schedule of customs duties, or any more or less permanent charges, such as railroad and express rates.

Tax—A levy upon property for governmental purposes.

Temporary Receipt—Receipt usually given by house of issue to subscribers to securities, pending engraving and delivery of definitive certificates.

Ticker—An electrically operated device, which prints quotations almost immediately after transactions, upon thin tape-like sheets of paper.

Tip—Alleged "inside" information as to corporate activities or market manipulations, supposed to be exclusive and extremely valuable. Usually worthless.

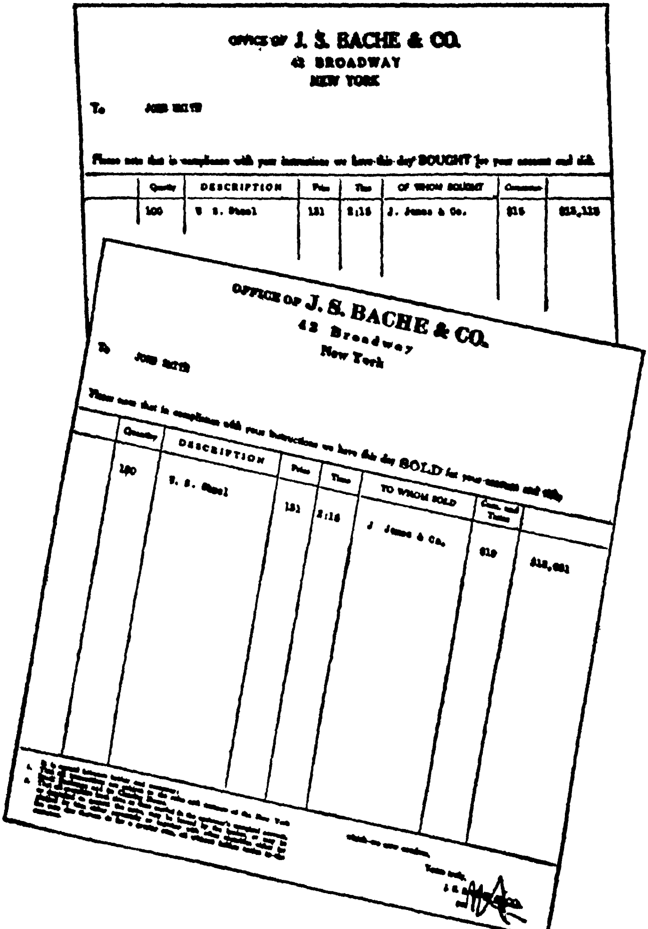
Ton Mile—Railroad term to express the movement of one ton for a distance of one mile.

Trader—In Wall Street, an individual who makes a business of buying and selling stocks for his own account.

Train Miles—The number of miles, combined, travelled by all the trains run by a railroad. Often used as an index of freight and passenger movements.

Transaction—The purchase or sale of a security or other property.

Transfer—Stock is conveyed from one owner to another by indorsement on the back of the stock certificate either by the owner of the certificate or by his attorney, and



TRANSACTIONS—BROKERS' ADVICES OF PURCHASE AND SALE OF STOCK FOR CUSTOMER.

proper entry of transaction on the transfer books of the corporation.

Trust Company—See Bank-Trust Company.

Trust, Voting—A majority of capital stock of a corporation placed at the disposal of trustees, for a limited time, and for their exclusive voting, by the stockholders.

Turnover—The number of times a given factor is used in corporation's business. Thus, *Capital Turnover* is the number of times a company's capital has been laid out, in the purchase of goods or materials, and the number of times that capital has come back to it, through sales, over a given period of time. *Inventory Turnover* is the number of times the average stock of goods carried by a corporation is sold in the course of a given period. *Labor Turnover* is the proportion of replacements necessitated during a period, in terms of the entire working force.

U

Under the Rule—In the event of failure to deliver or receive stock bought or sold on the New York Stock Exchange, said stock is either bought or sold for what it will bring, and the member who has failed to make good is charged with the deficit in price, if any.

Underwriting—In corporate finance, an "underwriting" is the guarantee of the financial syndicate that a proposed issue of stock will all be subscribed for. Thus, if the proposed issue be of 100,000 shares and be underwritten, and if only 75,000 shares be disposed of in the open market, the balance will be taken and paid for by the underwriting syndicate. The necessity of taking over unsold portions of such issues, which frequently arises, with the resultant tying up of large amounts of capital is one of the contributory causes of the large underwriting profits which are required by syndicates.

Usury—Interest rates above the statutory maximum.

Valorization—"Pegging" of commodities by government. (See "Peg".)

Value—Inherent worth of any commodity or security, as distinguished from market price.

Value, Book—The par value of a stock, plus its share of the surplus of the issuing company.

Vertical Trust—An industrial organization controlling all the operations in its line, from the production of the raw material to the delivery, or sale, of the finished product.

W

Wages—In economic theory, that factor in the production of wealth specifically due to labor, as distinguished from rent, interest on capital, profit on capital risk and *entrepreneur* profit. Also distinguished from the part capital-equipment as such plays in production. Labor, in economic theory, includes all executive ability, save such as is connected with *entrepreneur* ability (which see). For social reasons, persons holding higher positions are said to receive salaries.

Wall Street—A term for the New York financial community.

Warrant—A privilege, usually given with bonds and preferred stock, enabling the holder to subscribe to stock of the same company for certain periods at stipulated prices, in a fixed or varying ratio to his bond holdings.

When Issued—A type of contract under which a security whose issuance by a corporation is contemplated, may be dealt in before it is actually issued. In event of failure to issue the stock, contracts entered into on a "when issued" basis are automatically voided.

Whipsawed—To buy before a recession and to sell before a recovery.

Window Dressing—The art of temporarily obtaining accommodations, or in any other temporary manner making it appear that a momentary financial state is one prevailing throughout the year. The resultant balance sheet, although not misleading as to fact, is misleading as to implication.

Yield—The income from a security in terms of the price paid for it. Thus, if a security paying $8 per share in dividends be purchased at 100, the yield therefrom will be 8%. If, however, it be purchased at 80, the yield will be 10%.

Yield to Maturity—When a bond is purchased, the yield over a period of years, until the specific maturity of the issue, is affected not only by (1) the purchase price and (2) the interest rate but also by (3) the number of years to maturity and (4) the maturity value. All those factors are taken into consideration in figuring bond yields, and such yields are invariably quoted on this "to maturity" basis. The investor should not seek to devise his own formula for computing yields to maturity. The mathematics involved are too complicated. Instead, he should equip himself with a Book of Yield Tables, in which he will find the yield from a given bond, for each period and price all worked out for him.