# Dictionary of Investment Terms

NESBITT THOMSON
AND COMPANY LIMITED

215 St. James Street
MONTREAL

# Dictionary of Investment Terms

Compiled for the use of Investors and Prospective Investors, explaining the current terms used in the business of investing, and bringing to light some of the principles of sound investment.



*By*

**NESBITT THOMSON AND COMPANY LIMITED**

215 St. James Street West
MONTREAL

BRANCHES

Toronto Hamilton London, Ont. Ottawa
Quebec Winnipeg Saskatoon
Vancouver Victoria, B.C.

In compiling this Dictionary, and making it available to the Investing Public, we are following the established policy of our house, which is, simply, to serve the interests of the investor.

Information, counsel and assistance on any investment subject is freely offered to every serious reader, without any hint of obligation.

**NESBITT THOMSON**
**AND COMPANY LIMITED**

## — A —

### "A" Bonds

Used when bonds are issued in more than one "Series", each series being distinguished by the prefixed letter "A", "B", etc.

(*See* "Series").

### "A" Stock

Usually applied to common stock. A company may attach special privileges to part of its issue of common stock. For example, it may allow one part to receive dividends before the other part or parts, or in the event of voluntary liquidation, one part may be entitled to a greater share of the company's assets than another, and so forth. To distinguish between the various parts, one will be called "Class A", another "Class B", etc.

### Absorbed

When an issue of securities is held for investment by the public it is said to have been "absorbed".

## Accrued Interest

The interest earned by a bond at any given time, calculated at the stipulated rate from the date of the last previous interest payment.

Interest is normally payable semi-annually or quarterly; but it *accrues* daily. In other words, while the interest payable on a 6% $1,000. bond for a year is $60.00, the interest is not all suddenly earned on the day it is due. Presume that you hold a bond which pays 6% per annum, payable half-yearly, on January 2 and July 2 (3% each six months). At the end of May you wish to sell your bond. It has earned roughly at the rate of $5.00 a month since January 2,—five months at $5.00—$25.00. You cannot claim this money from the company issuing the bonds as the interest is not due and payable until July 2, on which date, and then only, $30.00 will be paid to whoever or whomsoever holds the bond at the time.

Suppose the agreed price for the contemplated sale is "par"—$1,000.00. You arrange to sell at "par and accrued interest", which means that the buyer pays you $1,000.00, plus $25.00 to cover the "accrued interest".

On July 2, the new owner receives $30.00 interest,—$25.00 of which repays him for the sum he paid you for "accrued interest", while the other $5.00 represents the proportion of the interest on the bond due to him for the month during which he has owned it.

There are only two ways of selling bonds and stocks on days other than interest days without loss of accrued interest to the vendor. One is to sell at "a price and accrued interest". The other is, when figuring the selling price of the security, to add to it a sum equal to the accrued interest and then sell at the combined figure.

Note: Instalments of interest, which have fallen due for payment, but have not been paid, are called "accumulated interest", as distinct from "accrued interest".

## Accumulated Dividends

Dividends due, but not paid, on Cumulative Stock.

## Accumulated Interest

Interest due, but not paid, on bonds, or other interest-bearing securities.

## Active Assets

Assets that are in every day use.

## Active Bonds

*See* "Active Securities".

## Active Securities

Securities which are frequently bought and sold. When trading in a security ceases for any considerable time, it becomes "inactive".

## Allotment

When subscriptions for a new issue are received in excess of the amount of such issue, the issue is apportioned to the subscribers on a percentage basis. The amount received by each subscriber is called an "allotment".

## Amortize

To write-off or extinguish an asset or a liability by periodical proportions over a period of time.

Examples are,—

(1) The elimination of Goodwill, Organization Expense, or other intangible assets by applying a

portion of the profits periodically to that purpose, until the original amount of the asset has disappeared.

(2) The gradual extinction of a long-term debt, such as an issue of Bonds, by the redemption of a certain proportion each year,—either through the operation of a "Sinking Fund" or otherwise.

(*See* "Sinking Fund").

## Amortization

The process of Amortizing, as aforesaid.

## And Interest

*See* "Accrued Interest".

## Annual Interest

Interest payable once a year. Securities with interest payable at such a long interval are not as common nor as popular as those on which interest is payable semi-annually or quarterly.

## Appreciation

Increase in value.

A security is said to have potential appreciation when there is a possibility of its value increasing,—from an increase in the value of the issuing company's assets, or in its earning power, or for any other reason.

## Arbitrage

When prices of the same security vary in different markets, it may be advantageous to buy in the lower and sell in the higher market. The process is called "Arbitraging", and the profit derived therefrom "Arbitrage".

## Asked Price

The price which a vendor asks for a security (*See* Bid and Asked).

## Assets

Anything belonging to a business or corporation and considered by it to be of any value is called by it an "asset". They are divided into two classes, tangible, covering such assets as real-estate, machinery, inventories, material and merchandise in the process of manufacture, cash, accounts receivable, etc. Intangible assets include patent rights, trade-marks, good-will, etc.

## Assumed Bonds

When the control or ownership of a corporation passes into the hands of another corporation, the latter sometimes assumes the responsibility for payment of both the principal and the interest, or either, on bonds issued by the first-mentioned corporation.

In such cases, the bonds are termed "Assumed Bonds". (*See* "Guaranteed Bond").

## At a Discount

*See* "Par".

## At a Premium

*See* "Par".

## At Par

*See* "Par".

## At or Better

An order may be given to buy a security "at (say) 100 or better", meaning at 100 or a lower price if possible.

When giving instructions to sell "at 100 or better" means at 100 or a higher price if obtainable.

## At the Market

Buying or selling securities at the best price obtainable on the market at the time, instead of at a specified figure.

## At the Opening

Buying or selling securities at the price current at the opening of a Stock Exchange, no actual price limit being indicated.

## Authorized Issue

The total amount of an issue of securities which a company may legally sell in accordance with the terms imposed by its charter, by-laws or otherwise.

## Averaging

This term describes a method often followed in purchasing or selling stocks. Speculators use it in an advancing or declining market to strengthen their position. "Averaging down" is buying more stock at a lower price than previous purchases, so that the average cost of all the stock purchased is lowered. "Averaging up" is buying more stock at a higher price than previous purchases, thus increasing average cost. In selling short, additional stock may be sold at advancing prices, whereby the average sale price would be increased.

— B —

## "B" Bond

A bond in an issue divided into an alphabetical series. (*See* "A" Bond).

## "B" Stock

*See* "A" Stock.

## Bare

When there are no securities of any particular issue or issues available for purchase, the market is stated to be "bare" of such issue or issues.

Also used as follows,—suppose a new issue of Preferred Stock was marketed at 100, carrying a bonus of Common Stock. Later quotations for the Preferred and Common might appear, either for units consisting of both Preferred and Common, or for each class separately. When dealt in separately, a quotation made for the Preferred without the Common would be followed by the word "bare"—as"100 bare".

## Basis

Bonds are often spoken of as selling on, say, "a 5% basis", which means that the investor holding such bond to maturity will receive a return of 5% on his money after making due allowance for the price paid, the rate of interest, the maturity date, and its redemption value at maturity.

(*See* "Net Return upon the Investment").

## Bear

One who strives to lower the prices of securities or believes a decline in prices is imminent. A "bear" usually "sells short", with the intention of "buying in" later at a lower price.

A concerted selling movement on the part of the "bears" for the purpose of depressing prices is known as a "bear raid".

## Below Par

*See* "Par".

## Bid and Asked

A "Bid Price" is the price offered by a purchaser who desires to buy. The "Asked Price" is the price asked by the vendor who wishes to sell.

## Blanket Mortgage

A mortgage for which a number of properties have been pledged. Such a mortgage sometimes indicates that other mortgages having precedence over the blanket mortgage exist on the properties pledged.

## Bonds

An acknowledgment of debt (note) given by the borrower to a lender, secured by a specific pledge of assets, stating definitely the duration of the loan, the rate of interest to be paid on the borrowed money, and the dates on which such interest payment is to be made, and the place at which both principal and interest will be paid as such payments become due.

This method of financing is commonly adopted by governments, municipalities, cities and corporations. The purchase of a bond is in effect the loaning of a sum of money to a government, municipality, city or corporation for a certain annual rental for a limited period.

Bonds may be classified by various methods.

**1. Classification by method of payment.**

A Coupon Bond (as distinct from a "registered coupon" bond) is one in which both the interest and the principal are payable to the bearer.

A Registered Coupon Bond is one having the principal only registered, the coupons being payable to bearer.

A Fully Registered Bond is one having the name of the owner registered on the bond and on the books of the company, the interest being payable only by cheque.

A Gold Bond is one in which the interest and principal is payable in gold coin if required.

A Currency Bond is one in which both the interest and the principal is payable in any money that is legal tender.

### 2. Classification by denomination.

Bonds are usually issued in one of the following denominations:

| Large Bonds | Small Bonds |
|---|---|
| $10,000 each | $1,000 each |
| 5,000 each | 500 each |
| | 100 each |

### 3. Classification by rate of interest.

Bonds are often described as "Fives", meaning that they pay interest at 5% per annum; or as "Fours", "Four and a Halves", etc.

### 4. Classification by date of maturity.

A bond described as a "10 Year Bond" matures, or is repayable, at the end of 10 years.

Similarly, in the case of a 20 Year Bond, the principal, or the amount borrowed, is repayable to the holder of the bond at the end of 20 years.

A bond, issued in 1928, repayable in 10 years, may be described as a "1938 maturity".

### 5. Classification by type of security or guarantee given.

Bonds are usually the best secured securities issued by a corporation or institution. They take precedence over preferred and common stocks. They are usually secured by a charge on the properties of the corporation or institution, which pledges its property, or some part of it, as a guarantee of repayment.

First Mortgage Bonds are issued under a mortgage which takes precedence over all other mortgages in existence or to be created.

General Mortgage Bonds are issued usually covering the entire assets of the issuing corporation subject to any existing mortgages of the issuing corporation which may have a prior claim.

Consolidated Mortgage Bonds are usually issued to consolidate debts which have been previously represented by various other issues.

Debenture Bonds are issued against the credit of the borrower, carrying a stipulated rate of interest and a definite date for repayment. They are seldom secured by a direct or specific pledge of assets.

A Guaranteed Bond is one of which the payment of principal and interest is guaranteed by a company or institution other than the one that issues it.

A bond is in reality a method of dividing up a large mortgage so that any number of people may participate in it. It differs from stock in that the bond is a time loan, drawing interest, whereas a share of stock represents part ownership in the property and business of the company issuing it.

The prices of bonds, the interest they bear, and their desirability as investments, depend largely on the borrower; the character of the corporation; value of its assets; nature of its business, earning power, etc. Generally speaking, the greater the security, the lower the net interest return. It is usually considered that bonds rank somewhat as follows in order of security and desirability—

Dominion Government Bonds
Provincial Bonds
Foreign Government Bonds
Municipal Bonds
Railroad and Public Utility Bonds
Corporation Bonds

However, some Corporation Bonds are safer than some Railroad bonds; some Foreign Government securities are safer, and some far less safe, than Municipal Bonds. The character and standing of the issuer decides these points, and the opinion of an Investment Banking House is desirable when making a choice.

The value of a bond is also affected by the priority of its claim on the property pledged. A First Mortgage Bond, having first call on assets, is, other things being equal, more valuable than a General Mortgage Bond which ranks after it.

The chief considerations to be borne in mind when judging a bond (or other security) as a suitable security to purchase are as follows:—

1. **Safety.** Does a study of the borrower's character, business assets, and prospects indicate a reasonable certainty that sufficient earnings can be made to pay the interest regularly and retire its bonds as planned?

2. **Satisfactory Interest Return.** Does the price paid for the bonds yield a satisfactory rate of interest?

3. **Marketability.** Is there a good demand for the bond on the market? Will it be possible to sell it at any time?

4. **Date of Maturity.** Will the bond keep your money satisfactorily invested for a satisfactory period of time? Or will it be repaid too soon to suit you, and make another and possibly less desirable purchase necessary?

5. **Denominations.** Are bonds available in the desired indicated face values to suit your particular investment requirements?

6. **Collateral Value.** Will the Banks readily loan money against the bond up to a satisfactory proportion of its market value? (*See* Collateral).

The choice of an investment is an important matter and should never be undertaken in a haphazard manner. So many factors enter into the make-up of a good investment that the average man has not the time to investigate thoroughly, nor would he be able to secure the actual facts upon which to base his decision without entailing a prohibitive expense. The average investor, then, instead of spending his time and money investigating different issues, should carefully choose a reputable and successful Investment Banking House, and accept their advice on his individual investments. Such a House will be equipped to carry out careful investigation of the merits of an investment, and would not recommend a security which failed to measure up to their standard of merit.

## Bonded Debt

The fixed indebtedness of a municipality or incorporated company in the form of Bonds.

## Bonus

Sometimes original issues of bonds or preferred stocks carry a bonus of common stock, thus giving to the purchaser of the unit an investment in a senior security and an opportunity, through the common stock, of sharing in the prosperity of the Company.

## Book Value

Of Assets—The value at which they appear on a company's books or in its published financial statements.

Of Common Stock—The proportion of a company's "Net Worth", or "Net Assets", represented by one share of common stock. This value is, generally speaking, arrived at by deducting from the total tangible assets, the total liabilities to the public and all outstanding preferred stock, and dividing the result by the number of shares of common stock outstanding.

## Brokerage

The commission charged by a broker for buying or selling securities for others.

## Bucket Shops

Bucket shops are illegal, and are, in effect, but places where bets are made on Exchange quotations. No actual transactions take place, but a margin, or more properly, a bet, is put up by the customer, and commission is charged for the buying and selling, although no buying and selling is done. When the quotations show a profit to the person who laid the bet, he is privileged to demand the profit. When the quotations decline below the figure protected by margin (or bet), the bettor loses.

## Bull

One who strives to raise prices of securities, or believes that prices are due to rise; when prices are going up generally, a "bull market" is said to be in progress.

— C —

## Call

To "call" a security means that the borrower (whether a government, municipality or corporation) redeems and pays off its obligation. A security may be called at a certain price at a certain period, or may be callable at the option of the borrower, or under certain conditions.

In this connection "call" is similar to "redemption".

Where only part of an issue of Bonds is "called", the specific certificates to be thus redeemed are frequently determined by lot—the certificates corresponding to the numbers drawn being advertised as having been called.

## Callable

This indicates the right on the part of the issuer of security to redeem it,—usually under specified conditions—previous to its actual date of maturity. "Subject to call". "Subject to redemption".

## Called Bonds

Bonds called for payment or redemption under conditions specified in the bonds and the Deed of Trust. The interest ceases at the date of call.

## Capital

Wealth employed for the carrying on of a business or undertaking. Authorized capital is the amount of capital or number of shares which a company may legally issue under its charter. Issued capital is the amount outstanding in the hands of its shareholders.

## Capitalization

Usually used when referring to the financial set up of a corporation, denoting the total amount of bonds, debentures, notes, stocks, etc., which a corporation may legally issue, and the amounts which it has already issued.

## Capitalization of Earnings

Presume a company, by one means or another, has accumulated a large surplus amount and desires to distribute such surplus to its shareholders, but may not find it convenient to do so by paying a cash dividend. In such a case the company might issue new stock pro rata to its shareholders for the amount of the surplus it wishes to distribute. The amount so distributed would then be transferred on the books of the Company from surplus account to capital account. This action is spoken of as "capitalization of earnings".

Also when an investor holds securities which have appreciated in value and sells them, and re-invests the profit, he is said to "capitalize" his profits.

## Capital Expenditure

Expenditure made for the purchase of fixed assets, as distinct from current disbursements undertaken as a part of trading operations.

## Capital Liabilities

Outstanding Bonds, Debentures, Mortgages, other long-term liabilities, and Capital Stock of a Corporation.

## Carrying Charges

The interest paid on a loan or debit balance incurred in connection with the purchase and holding of securities when not fully paid for at the time of purchase.

## Certificate of Indebtedness

A floating indebtedness covered by a promissory note or notes bearing a fixed rate of interest and having a definite maturity.

## Cheap Money

Money is called "cheap" when it is plentiful and consequently may be borrowed at a low rate of interest.

## Close Corporation

An incorporated company, the capital stock of which is held by a very few shareholders, so that it virtually amounts to a private undertaking.

## Closed Mortgage

A mortgage under which the total amount of authorized indebtedness has been incurred.

## Closing Prices

Prices at which the last sales of the day are made on any Stock Exchange.

## Collateral (Collateral Security)

Security pledged together with the evidence of debt to satisfy the claim of the lender should the borrower fail to meet the indebtedness when due.

Securities deposited with a Bank or other lender for this purpose are described also as being "hypothecated".

Securities against which a loan can readily be obtained are described as having a "good collateral value".

High grade bonds are the most popular collateral. Banks will loan money on bonds more readily and to a higher percentage of their value than on any other class of security.

## Collateral Trust Bonds

Issued by a corporation, not secured by a direct mortgage upon its own property, but secured through the deposit with a Trustee of other corporate securities. Such a bond may be, indirectly, equivalent to a first mortgage in the event of all the deposited collateral being First Mortgage Bonds.

## Common Stock

The Junior stock or shares issued by an incorporated company.

Although "common stock" usually carries with it the voting power, there are cases when preferred shareholders also have voting rights.

The usual financial structure for corporations is composed of:

Bonds
Preferred Stock
Common Stock

Priority to assets and earnings are in the above indicated sequence, for which security participation of the senior issues is limited and defined. For the junior position taken by the Common Stock no limitations are imposed, after providing for the senior or prior issues.

The value of common stocks as an investment is governed by the amount of securities (if any) having precedence to it, and the success of the corporation.

## Confirmation

This is a form commonly known as a "contract" delivered to the client by a broker or dealer on completion of an order to sell or to buy given him by the client, which details the terms of the transaction.

The client's order, whether given verbally or in writing, together with the broker's acceptance of same as indicated by his confirmation, constitutes a contract that is legally binding on both parties.

## Consolidated Mortgage Bond

Theoretically a corporation bond secured by a mortgage on the entire property, formed by the consolidation of several smaller properties. Such a mortgage may be a first mortgage upon the property so consolidated, or it may be subject to earlier mortgages issued by one or more of the several companies consolidated. (*See* General Mortgage Bonds).

A very common use of the term is to describe an issue created to take the place of, or refund, other issues having a prior lien to it, but which are not yet due, the new debt being intended eventually to consolidate the funded indebtedness of the company. In a case such as this the authorized issue is usually large enough to provide for the retirement of the prior indebtedness and furnish funds for requisite improvements or extensions.

## Convertible Bond

A bond which the holder may either hold or exchange, at his option, into other securities. The convertible feature of a bond gives it a certain amount of desirability as it sometimes places the owner in a position to participate to a greater extent in the prosperity of the corporation.

## Corporation Bond

A bond issued by an incorporated company.

## Coupon

Interest certificate which is attached to a bond in detachable form, representing interest upon the bond for a certain period. It is detached as it becomes due for payment, and may be sold or deposited in a Bank in the same manner as a cheque.

## Coupon Bond

A bond which has coupons attached. Coupon bonds have a high degree of marketability, because a change of ownership demands no formal transfer, but merely the physical delivery of the bond.

## Cum

A Latin word meaning "with".

"Cum Rights" means that a security is sold with any rights that may accrue to it.

"Cum Dividends" means that a security is sold with the understanding that the dividend will be paid to the purchaser and not to the vendor. (*See* "Ex").

## Cumulative

This term is usually used in connection with Preferred Stocks with regard to dividends which are cumulative from a fixed date, and are, as they accumulate, a liability of the issuing company until paid.

## Cumulative Income Bonds

(*See* "Income Bonds").

## Currency Bond

A bond not specifically payable in gold coin, but in any lawful money.

## Current Assets

The Current Assets of a corporation, or other business, include all assets which are converted into money in the usual course of business.

These include, principally,—

1. Cash on Hand and on Deposit.
2. Loans and Bills Receivable.
3. Accounts Receivable.
4. Investments.
5. Inventories.

## Current Liabilities

Liabilities which are due for settlement within a comparatively short period, and in the usual course of business.

These include, principally,—

1. Loans and Bills Payable.
2. Accounts Payable.
3. Interest and Dividends Payable.

— D —

## Dear Money

Money is stated to be dear when it is scarce and consequently cannot be borrowed except at high rates of interest.

Seasonal demands for money, such as financing the movement of crops, the provision of funds to enable manufacturers to convert raw material into the completed product and market it, and others, employ a large amount of money. This affects the supply, making it scarce, so that the rate at which it is loaned corresponds to the ratio of demand and supply, creating dear money.

## Debenture

A certificate of indebtedness issued by a corporation or municipality.

Unless it is secured by a mortgage it is simply a promise to pay, or a promissory note. It, therefore, takes preference over stock, both as regards payment of principal and interest, but will rank after any existing mortgage or bonds.

Provision is sometimes made that no mortgage shall be made during the life of a debenture issue unless it equally ensures the latter.

The desirability of a debenture as an investment depends largely on the financial status of the corporation or institution issuing it, and the amount of indebtedness having prior claim. In event of default no foreclosure can be made, the holder being simply a note holder, and able to recover only after prior claims have been satisfied.

## Default

When an indebtedness is not paid when due, the debtor is said to be "in default". Bond interest unpaid when due or preferred dividends declared and unpaid, are said to be "defaulted".

## Deferred Bonds

Bonds upon which the payment of interest may be postponed to some future date, or one upon which interest may be paid in a graduating scale over a period of years, until the interest paid reaches a specified rate.

## Definitive Bonds

Since the engraving of bonds, preparation of Trust Deeds, investigation of titles to property, etc., are operations which take a considerable length of time, "interim receipts" or "temporary bonds" are issued to subscribers to or purchasers of the issue, later to be exchanged for "permanent" or "Definitive Bonds". Temporary bonds, when properly issued, are binding upon the issuing company.

## Delivery

The completion of a transaction entailing the handing of securities to the purchaser, usually upon receipt of payment therefor.

## Denomination

The face value of a bond. Most bonds are issued in the "denomination" of $1,000., although "denominations" of $10,000., $5,000., $500. and $100. are not uncommon.

## Depreciation Reserve

An appropriation of Surplus Earnings, representing the accumulation of amounts set aside periodically to provide for the amortization of certain assets.

The amount appearing on a company's Balance Sheet under this heading must be considered with relation to the stated value of the assets to which it applies,—the actual value of such assets being represented by the figure at which it appears, less the Depreciation Reserve.

The Depreciation Reserve may appear on the Liability side of the Balance Sheet; or on the

Asset side as a deduction from the value of the assets to which it applies.

## Digested

(*See* "Absorbed").

## Discount

(*See* "Par").

## Diversification

Colloquially speaking, the sound investment policy of not putting all one's eggs in one basket.

Diversification may be of many kinds:—

1. Diversification by classes of securities. It is usually a wise investment policy to hold certain proportions of bonds, preferred stock and common stock.

2. Diversification by classes of borrower,—as for instance, government, municipalities, railroads, power and public utility corporations, industrial corporations, etc.

3. Diversification by date of maturity. It is usually preferable to hold securities which fall due for repayment at different times, so that the investor is not faced with the necessity of having to reinvest all his capital at one time, which, if it occurred in a period of inflation, might be damaging to his holdings.

4. Geographical diversification. It is usually wise policy to purchase securities whose income is derived from different parts of the Dominion, and even of the World.

## Dividend

Profits distributed to shareholders.

A Cash Dividend.—One which is payable in cash, i.e., by cheque.

A Scrip Dividend.—One payable in scrip, or in other words, by the issue of a Bill bearing interest at a specified rate, usually convertible into stock under specified conditions.

A Stock Dividend.—One payable, not in cash, but in the stock of the company which declares it, or sometimes in the stock of a subsidiary company.

## Drawn

In certain issues a stated number of bonds are drawn for repayment at stated intervals. A drawing takes place, and the bonds bearing the numbers chosen are redeemed at the price specified in the Trust Deed.

– E –

## Easier Money

Said when interest rates, prices or markets are lower. Reverse to "dear money"—(which see).

## Endorsement

A guarantee of payment of a promissory note, draft, bill of exchange, etc. The endorser holds himself responsible for payment; but he occupies a secondary position, as far as liability is concerned, to the original signer of the paper and is liable for payment only when the first party defaults.

## Equity

The equity behind a security is the net value of the property owned.

Net value is the value of the assets of a company after allowance for the repayment of all its outstanding debts and liabilities, with due regard to the nature of any "intangible assets" that may exist.

## Ex

A Latin word meaning "without", used as "ex dividend", "ex rights", etc.

## Ex-Coupon

Without interest; coupon already due, or about to become due, detached.

## Ex-Interest

Without interest; coupon for interest just due and detached. This term is particularly used in reference to "registered bonds", which, inasmuch as the interest is forwarded by cheque to the registered holder as at a certain date, are to that extent treated more or less in the same manner as shares of stock.

Such a bond, sold while the registry books are closed, would be sold subject to adjustment of interest; that is, as the interest cheque would go to the previous holder, the purchaser would base his end of the transaction upon that understanding.

There is at times a difference in the quotations between the registered and coupon bonds of the same issue, equal to the amount of the coupon. A registered 6% bond, for example, on which 2% (four months) interest has accumulated, might be quoted at 106, which would be the equivalent of the same bond in coupon form selling at 104 "and interest". (*See* "Registered Bond").

## Ex-Rights

A security sold "ex-rights" does not give the purchaser the benefit of any rights which may attach to the security. Such rights remain the property of the vendor. Rights are frequently sold separately. (*See* "Rights").

— F —

## Face Value

The value printed on the face of securities, equivalent to "par value". (*See* "Par").

## First and General Mortgage Bonds

This indicates an issue secured by a first mortgage on part of a property and a "General Mortgage" on the remainder.

## First and Consolidated Mortgage

Indicating that the security is a first mortgage on a portion of the assets and a consolidated mortgage upon the remainder, and indicating that, upon the retirement of the prior issues, it would likely be a First Mortgage upon all the property.

## First Mortgage

(*See* "Mortgage"). There are sometimes several mortgages placed upon the same property. The one having the prior claim to or preference over the others is known as the "First Mortgage".

## First Mortgage Bond

A promise to pay in the form of a bond secured by a First Mortgage on assets of the corporation which issued it.

## Fiscal Agent

A Banker or Investment Banking House which, as agents, advises Governments, Municipalities, or Corporations as to their financial policies and which provides the funds necessary for their requirements.

## Fixed Charge

A charge upon which payments must be made at stated intervals. As, for instance, interest on bonds, notes, etc.

## Fixed Debt

Funded debt, as represented by bonds, notes, debentures, etc.

## Fixed Indebtedness

(*See* above).

## Fixed Liabilities

(*See* above).

## Flat

Without interest. (*See* "Accrued Interest" and "Ex-Interest").

## Floating Charge

(*See* "Floating Debt").

## Floating Debt

Indebtedness which is not funded, or which is not represented by securities.

Floating debt usually consists of:

1. Money directly borrowed from Banks, etc.
2. Money owed for miscellaneous purposes.
3. Money payable on bills, notes, etc.

(*See* "Current Liabilities").

## Floating Securities

It usually happens that a certain proportion of a corporation's securities are held more or less permanently by investors. The balance is usually held for short terms and freely bought and sold. The latter would be termed "floating securities". (*See* "Absorbed").

## Franchise

A particular privilege granted to a company. A public utility corporation, supplying light and gas, or operating street cars must obtain permission to use the public thoroughfares for such purposes. The permission granted is termed a "Franchise".

## Fully Paid (Full Paid)

Nothing further is due. Obligation has been discharged. No further payment may be demanded.

In the case of a new issue of stock, a Company will sometimes issue its shares at, say, $100. per share, of which $25. would be payable with the application, and the balance upon demand by the Company. After all calls have been met and the $100. a share paid, the stock would be known as "fully paid".

## Funded Debt

(*See* "Fixed Debt").

## Funding

Converting debts—not bonded—of various amounts and maturities, or a debt due or soon to become due, into a unified form, usually with a fixed rate of interest, maturity, etc. As an example, imagine a city to have outstanding debts in the form of short term notes or loans which fall due from time to time, and which the city has to renew or extend, and which it appears unable, from its resources, to pay off for a term of years. By the method of renewing, from time to time, excessive rates of interest are often paid, and in the long run, it is an expensive way of borrowing. By the issuing of bonds, at a favourable opportunity, money may be obtained at a lower rate of interest, and a saving made to the city. The selling of bonds in this case to pay off the short term notes or loans is called "funding" the latter.

— G —

## General Mortgage

A mortgage covering all the property of a corporation, usually subject to prior mortgages.

## General Mortgage Bond

A bond issued under a general mortgage.

## Gold Bonds

In Canada, bonds payable in Canadian gold coin of the present standard of weight and fineness.

## Government Bonds

A bond issued by a Government (as distinct from a Municipality).

Government securities may be considered among the luxuries of investments. Probably nothing safer can be found. For this extreme in security, it is only natural to expect the penalty of a low interest return.

## Guaranteed Bond

In certain cases the payment of either the principal and interest (or both) of a bond is guaranteed by a corporation or institution other than that which issued it.

(*See* "Assumed Bonds").

## Guaranteed Stock

A stock of which the dividends, or both principal and dividends, are guaranteed by a company other than the issuing company.

## — H —

### Holding Company

A company, the chief purpose of which is the ownership of the shares of another company or companies.

### House of Issue

An Investment Banking House which purchases an entire issue of securities and places it on the market.

### Hypothecate

To mortgage, or pledge as security for a debt. (*See* Collateral).

## — I —

### Inactive Bonds

Bonds which are bought and sold only at infrequent intervals.

### Income Basis

The actual return which a security gives its holder, calculated in relation to its purchase price, its rate of interest, and date of maturity.

A stock paying 6%, bought at 90 would yield its holder 6.67% as long as it was held and continued to pay that dividend,—or in other words, it sells on a 6.67% income basis. A six percent bond having 20 years to run, bought at 90, if held to maturity would yield the holder over 6.90%.

## Income Bonds

There is very little difference between an "income bond" and "preferred stock", except that upon the former the interest is expected to be paid if earned. The management may decide otherwise, however. Such a bond is usually secured by a pledge of the net earnings of the corporation, after payment of interest and sinking fund requirements in connection with all indebtedness having a prior claim. An "income bond" may be "cumulative"; that is, if the earnings in any one year do not suffice to pay the interest, the deficiency is carried forward into following years until such interest is paid in full.

Also called "Preferred Bonds", or "Preference Income Bonds", if having some preferential rights over other issues. They are sometimes redeemed by "sinking funds" and, in some instances, acquire mortgage rights, if interest is unpaid, or if principal is unpaid at maturity. In the case of there being no mortgage rights, "income bonds" are often known as "Debenture Income Bonds". If they carry the convertible feature, as set forth under "Convertible Bonds", they are termed "Convertible Income Bonds".

A bond issue of this nature may have a detrimental effect upon the value of all junior securities of a company, as it lessens the likehood of dividends being paid upon the latter.

## Indorse

(*See* "Endorsement").

## Industrial Securities

Bonds or shares issued by industrial undertakings as distinct from securities issued by governments, municipalities, banks, public utilities, etc.

## Intangible Assets

(*See* "Assets").

## Interchangeable Bonds

The holder of an interchangeable bond, which happens to be in registered form, may at his request have it changed to coupon form, or vice versa, upon payment of a small fee.

Bonds may also be interchangeable as to denomination. For instance, the holder of an interchangeable bond with a denomination of $1,000.00 may exchange it for two bonds with a denomination of $500.00 each, upon payment of a small fee.

## Interest

Interest is the term applied to the "rental" charged for the use of Money.

Money is a commodity and consequently can be used or hired out for use.

The rental received from money invested in bonds is interest, and is an operating expense of the corporation issuing the bonds.

The rental received from money invested in stocks is called a dividend. Dividends can be paid only if earned.

## Interest-Bearing Securities

Securities which bear interest.

## Interim Receipts

*See* "Definitive Bonds".

## Investment Banker

Investment Banker is the term or name applied to houses whose business it is to find suitable investments for those having money to invest.

The Investment Banker proper will maintain a wide-spread organization, seeking suitable investments for its clients, which, when found, after thorough investigation, they will purchase themselves for re-sale to their clients. But the Investment Banker's obligations are not finished upon completion of the sale, as a moral obligation remains with them to keep in close contact with the management and affairs of the companies which they finance. In such manner, during the life of securities which they have sold, they endeavour to protect the interests of their clients.

## Investment Securities

Those which are not speculative. Those which have shown by their record that they are well secured and have every prospect of continuing payment of interest or dividends and repayment of principal when due.

## Issued

This word is applied to the outstanding securities of a corporation or institution to distinguish them from securities still held in the treasury unissued.

## Issue Price

The price at which an issue of securities is offered for subscription.

— J —

## Junior Mortgage

A mortgage over which another or senior mortgage takes precedence. All except "First Mortgages" are "Junior Mortgages".

(*See* "Mortgage").

## Junior Securities

Securities which rank after other securities. (*See* "Senior Securities").

### — L —

## Legal Opinion

The procedure involved in issuing bonds or shares is very complex, and should always be carried out under the supervision and approval of a competent lawyer. His written statement of his opinion that all legal requirements of the issue have been complied with and that the shares or bonds are properly issued in accordance with the charter and by-laws or Trust Deed of the company is called a "Legal Opinion".

One of the conditions an Investment Banker always makes when contracting to buy a new issue is that their purchase shall be subject to a satisfactory legal opinion.

## Lien

A legal claim on a property given as a security for a debt or obligation. A mortgage is one type of lien.

## Liquid Assets

Cash on hand, or assets which can be readily converted into money.

## Listed

When securities are included in the list of those dealt in upon any recognized stock exchange they are said to be listed on that exchange.

— M —

## Marketability

A security is said to be readily marketable, or to have "good marketability", when it can be sold readily.

It is one of the functions of Investment Bankers to create for the issues they sell a nation-wide distribution, and to sell them in comparatively small blocks to a large number of investors, thus maintaining a wide market for them.

## Market Price

Price quoted on any given security at the time. The price at which the purchase or sale of a security may be completed.

## Matured Bonds

Are bonds of which the payment of the principal has become due through expiration of the period of the loan.

The collection of the amount due may be made by forwarding the bonds to the Trustee for the Bondholders, who will remit upon receipt of the bonds.

## Maturity

The date at which a loan or obligation becomes due. A bond or other obligation is said to have reached "maturity" when the principal becomes due for payment, and in such event all further payments of interest cease.

## Money Market

This is a term applied to the general business of borrowing and lending money, and not to a specific place where money is borrowed and loaned.

## Money Rates

The rates of interest at which money can be borrowed. There are different rates for "call money",—that is, money returnable at the option of the lender; and for "time money",—that is, money lent for a specified period.

## Mortgage

When a corporation or individual desires to borrow money, and is able to pledge property as a security for the loan, the loan takes the form of a "Mortgage Loan". The mortgage is actually the instrument, or agreement, which entitles the lender (the mortgagee) to take possession of the property described in the mortgage in case the borrower (the mortgagor) fails to fulfil any or all of the terms set forth in the mortgage.

When the loan required is of too large an amount to be borrowed from one individual or institution, the amount is usually raised by means of a bond issue, in which case the borrower causes its properties to be mortgaged to a Trustee, usually a Trust Company, which in turn certifies bonds to be issued for the amount of the mortgage.

Generally speaking, a mortgage is a deed transferring the title to specified property to a lender of money,—the transfer to be effective only in case of default by the borrower of such money.

A mortgage becomes void upon payment in full of the debt involved, and fulfilment of its terms generally.

## Mortgagee

The individual or party lending money and receiving a mortgage on a property as security.

## Mortgage Bond

A promise to pay, represented by certificate or certificates in the form of Bonds, secured by a mortgage on property.

## Mortgagor

The individual or corporation who borrows and gives, as security, a mortgage on certain property.

## Municipal Bond

Any legally authorized bond issued by a village, township, county, or city, the payment of which must be made out of the funds obtained by the collection of taxes assessed against the property embraced in the municipality issuing the bond.

## — N —

### National Debt

The same as "Public Debt"; that is to say, money borrowed by the government of a country.

### Negotiable

That which may be transferred from one person to another, either by mere delivery, as in the case of money, coupon bearer bonds, a cheque made payable to "bearer", etc.; or by endorsement and delivery, as in the case of a note, cheque, or draft, payable to the order of a certain person, or a stock certificate.

### Net

Clear of all charges or deductions.

### Net Earnings

The divisible income remaining and available for payment of bond interest and dividends, after due allowance for all operating expenses, taxes, etc. The term "earnings" is usually used when referring to public service corporations, such as railroads, telephone companies, etc., and the word "profits" is applied to the gain made by commercial undertakings.

## Net Return Upon the Investment

(*See* "Income Basis"). The net Return, or "Yield", of a security is the actual true value of the income received, after taking into consideration the rate of interest or dividends, the price paid for the security, the date of its maturity, and its redemption value at maturity. The determining of a net return is rather a complex calculation for a busy man to make. We will be pleased to do the calculating for anyone desiring such service.

## Non-Assessable

Securities of which the owner cannot be legally compelled to make additional payments, in case of the failure of the corporation, or for any other reason.

## Note

A Promissory Note, which is a written promise to pay a specified sum to a specified person on or at a specified time after a certain date.

## Not Negotiable

This phrase indicates that the document described cannot be transferred to another party.

—O—

## Obligations

Debts, contracts, guarantees, or other charges which have to be provided for.

## Open Mortgage

A mortgage under which additional indebtedness can be incurred. The opposite of "Closed Mortgage". Sometimes the additional indebtedness which may be incurred is specified, and sometimes the amount is left open, but subject to restrictions protecting the original mortgagee.

## Operating Company

A corporation or company may secure control or entire ownership of another company.

If the purchased company is possessed of valuable trade-marks or good-will the controlling company may decide to continue the operations of the controlled company under its own name and by its own management. The controlling company would then be known as the holding company and the other as the "operating company".

## Operating Expenses

Expenses having to do solely with the ordinary operations and carrying on of a business,—as distinct from expenses incurred in connection with its financing, etc.

## Operating Surplus

Undistributed profits arising exclusively from the ordinary operations of a business,—not including revenue from or profit on sale of investments.

## Option Warrant

(*See* "Rights").

## Outstanding Issue

The proportion of an authorized issue of bonds, shares, etc., which has been actually issued. For example, a company may be legally authorized to issue $5,000,000. of First Mortgage Bonds. Not at the time requiring the full $5,000,000. it might sell only a part of the authorized issue, say, $2,000,000. This latter amount would be the "Outstanding Issue."

## Over-Capitalized

A company having so much capital stock outstanding that it is unable to earn a fair return upon its stock is said to be "over-capitalized".

— P —

## Par

Literally "equal". When used with reference to securities, it means the authorized face value of the security. A bond or share of $100. par value is said to be at "par" when it sells on the market at the rate of $100. When it sells at a price in excess of $100., it is said to be at a "Premium"; when it sells at a price below $100., it is said to be at a "Discount".

## Parent Company

(*See* "Holding Company").

## Participating Bonds

A bond which entitles the owner to participate in the profits of the corporation to an extent greater than the amount of bond interest received.

## Participating Preferred Stock

Preferred Stock is normally entitled to a definite rate of interest.

A "Participating Preferred Stock" is entitled to receive in addition to this, a specified share in the further profits of the company.

## Passing A Dividend

Failing to declare a dividend that had previously been regularly paid, or the non-declaration for payment of a dividend when due.

## Placing An Issue

To find a market for an issue of securities. To sell it.

## Preferred Stock

A class of Capital Stock which is subject to certain specific preferential rights over holders of other classes of stock, and which has first claim upon the assets or earnings of a corporation, or both, subject only to prior liens, such as Bonds and Debentures.

## Premium

(*See* "Par Value").

When a security is selling above "par", the amount by which the market price exceeds "par" is called the "premium".

## Principal

The principal of a security is its face value. The word "principal" is also used to denote the money which an investor has invested.

## Prior Lien Bonds

A bond secured by a lien which has precedence over all other claims on the issuing corporation.

## Public Debt

(*See* "National Debt").

— R —

## Redeemable

(*See* "Callable").

## Refunding Bonds

Bonds issued to redeem (pay off) other bonds which are due for redemption, or which a company or municipality has the right to redeem before maturity.

## Registered Bond

(*See* "Bonds").

Registration is advisable if safe-keeping advantages are not available to the owner, but with such available a bearer bond is preferable, particularly in the event of necessity of sale arising, as a bearer bond is more readily marketable.

## Registrar

An individual or corporation which keeps the register of stock or bond holders. Very often this function is carried out by a Bank or Trust Company. Amongst the duties of a registrar are the keeping of records of certificates issued and cancelled, and of names and addresses of security owners; and the mailing of interest cheques on interest days, etc.

The Registrar of the Capital Stock of a corporation is also responsible for the prevention of an issue of stock in excess of the corporation's authorized capital.

## Rights

When a corporation decides to issue new capital securities, the holders of its shares are frequently given the privilege of subscribing to the new issue in proportion to the number of shares already held. Such a privilege is known as a "Right to Subscribe". The scrip or certificate given for each share of old stock, evidencing this right to subscribe, is known as a "Right".

— S —

## Scrip

A temporary certificate often issued in financial transactions, which later is exchangeable for money, permanent stock certificates, or whatever the holder is entitled to receive.

## Scrip Dividend

A dividend which, instead of being paid in cash or its equivalent, is paid in certificates entitling the holder to stock.

## Seasoned Securities

Securities which have been outstanding for a considerable time, which have an established record of earnings over a period of years, on which interest and dividends have been regularly paid, and which give promise of maintaining the attained position.

## Second Mortgage Bond

A bond secured by pledge of properties already mortgaged. This "Second Mortgage" would be junior to the first, and in the event of default by the borrower and the winding up of the company, the first mortgage bond holders would be paid in full first. The remaining assets, after such payment, would be applied to pay off the Second Mortgage. Any assets then remaining would be used to satisfy the claims of the ordinary creditors and the shareholders of the company.

## Secured

When a loan is said to be "secured", there has been deposited negotiable collateral of a sufficient value to guarantee the repayment of the loan. This collateral may be appropriated by the lender should the borrower fail to carry out the terms of the loan.

## Secured Creditor

A creditor who holds something of value upon which he is entitled to realize in the event of an amount owing to him not being paid.

## Senior Mortgage (or Lien)

First, or prior mortgage,—having precedence over all other mortgages or liens.

## Senior Securities

Securities which rank in advance of other securities. Precedence is usually as follows:

Bonds
Debentures
Notes
Preferred Shares
Common Shares.

## Serial Bonds

An issue of bonds, parts of which are repayable at specified intervals. For instance, an issue of $10,000,000. may be redeemable at the rate of $1,000,000. each year for ten years.

## Series

Issues of bonds made at different times, possibly having different interest rates and maturity dates, but all secured equally through the one Trust Deed may be called "Series A", "Series B", etc., to distinguish the individual issues.

## Share

As applied to Capital Stock of a corporation, the term means one of the parts or shares into which such Capital Stock is divided.

(*See* "Stock").

## Sinking Fund

A fund into which specified sums of money are paid at regular intervals to provide for the repayment of all or part of the principal of a debt. (*See* "Amortize").

## Solicitor's Opinion

(*See* "Legal Opinion").

## Speculation

Dealing or gambling in expectations. Buying in expectation of an advance, or selling in expectation of a decline. A speculator purchases securities, not because he desires to ensure himself an income from them, but because he hopes to gain a speculative profit. A speculator is always subject to a wide variety of influences, the power of which he cannot control. There are very few successful stock speculators.

Investment, on the other hand, is the buying of securities with the object of securing safety of principal and a fair interest return. The speculator, as a rule, does not pay in full for the securities he buys. He borrows upon them or buys on margin. The investor usually buys securities, pays for them in full, and holds them until maturity or until a preferable investment is obtainable.

## Speculative Investor

One who buys securities, and pays for them in full, with the idea of holding them for a time, in the anticipation that they may be sold at a profit, and in the interim will pay interest or dividends. This type of investor prefers "semi-speculative" securities,—in other words, he likes to take a little chance.

## Stock

The capital of a company, which is usually divided into "shares", for which transferable certificates are issued.

## Stock Broker

One who executes orders to buy and sell securities. He may or may not be a member of any exchange. As great care should be taken in the choice of a Broker as in the choice of an Investment Banker.

## Subsidiary Company

Frequently in connection with an undertaking a corporation finds it advantageous to form or purchase another company to fulfill some particular need. The separate or "subsidiary" company functions in the particular branch assigned to it, and through its operations contributes to the success of the parent, or holding corporation.

## Surplus

The balance of earnings remaining with a corporation after payment of all expenses, and charges of every nature, including taxes, interest and depreciation, and after payment of dividends.

## Syndicate

A group of individuals who join together in an undertaking.

— T —

## Take Up

To pay for and obtain delivery of securities.

## Tax Free

Not subject to taxation.

## Temporary Bonds

(*See* "Definitive Bonds").

## Transfer

The act of recording a change in ownership of registered securities.

## Transfer Agents

The agent of a corporation, (usually a Trust Company), who makes a business of recording and effecting transfers of registered securities.

## Trust Deed

When used with reference to financial matters, it is the legal document conveying to a Trustee the title of property to be held in trust for others. It is the instrument which sets out the duties of the Trustee of a bond issue and the rights and obligations of the borrower and the lender.

## Trustee

When a borrower desires to obtain advances against property or other assets, or both, and in particular when bonds are issued as security to provide the necessary funds, the agreement detailing in full the terms under which the loan is made is described as a "Trust Deed". This document is deposited with a Trustee, usually a Trust Company, and the duties of the Trustee are to see that the terms of the Trust Deed are properly carried out.

— U —

## Underlying Mortgage (or Underlying Bond)

A mortgage prior in claim to another mortgage. For instance, the First Mortgage is the

"Underlying Mortgage" to the Second Mortgage.

## Underwriting

Guaranteeing that a new issue of securities shall be subscribed for. When an offering of a new security is made to the public and not subscribed for in full, the underwriters, under the terms of the Underwriting Agreement, are obligated to take up and pay for their respective portions of the unsold balance. Underwriting is still in vogue in Europe, but is not used today to any great extent in Canada, except by Investment Bankers, who not only guarantee the purchase of the issue, but actually purchase it.

— W —

## Warrants

(*See* "Rights").

## When Issued ("as, if and when").

A condition of sale indicating that the transaction will be completed only when actual delivery of certificates has been completed and payment made therefor. In other words, not before all legal technicalities have been satisfactorily dealt, with, and a satisfactory legal opinion upon the issue obtained.

## With Interest

(*See* "Accrued Interest").

## Without Interest

(*See* "Flat").

# – Y –

## Yield

(*See* "Income Basis")

The actual rate of return upon a sum invested when calculated for a fixed term at a stated rate of interest.

# Dictionary of Investment Terms

NESBITT THOMSON
AND COMPANY LIMITED

215 St. James Street
MONTREAL