



Dictionary of Finance and Investment Terms

Over 4,000 terms
defined and explained

Covers stocks and bonds, banking, corporate finance,
tax laws, mutual funds, and more in accordance with
federal income tax revisions

Charts and Graphs

Fifth Edition

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PUT GUARANTEE LETTER letter from a bank certifying that the person writing a put option on an underlying security or index instrument has sufficient funds on deposit at the bank to cover the exercise price of the put if needed. On a short put, the obligation is to pay the aggregate exercise price. There are two forms, as required under New York Stock Exchange Rule 431: the *market index option deposit letter* for index options, and the *equity/Treasury option deposit letter* for security options.

PUT OPTION

Bonds: bondholder's right to redeem a bond before maturity. *See also* PUT BOND.

Options: contract that grants the right to sell at a specified price a specific number of shares by a certain date. The put option buyer gains this right in return for payment of an OPTION PREMIUM. The put option seller grants this right in return for receiving this premium. For instance, a buyer of an XYZ May 70 put has the right to sell 100 shares of XYZ at \$70 to the put seller at any time until the contract expires in May. A put option buyer hopes the stock will drop in price, while the put option seller (called a *writer*) hopes the stock will remain stable, rise, or drop by an amount less than his or her profit on the premium.

PUT TO SELLER phrase used when a PUT OPTION is exercised. The OPTION WRITER is obligated to buy the underlying shares at the agreed upon price. If an XYZ June 40 put were "put to seller," for instance, the writer would have to buy 100 shares of XYZ at \$40 a share from the put holder even though the current market price of XYZ may be far less than \$40 a share.

PYRAMIDING

In general: form of business expansion that makes extensive use of financial LEVERAGE to build complex corporate structures.

Fraud: scheme that builds on nonexistent values, often in geometric progression, such as a chain letter, now outlawed by mail fraud legislation. A famous example was the Ponzi scheme, perpetrated by Charles Ponzi in the late 1920s. Investors were paid "earnings" out of money received from new investors until the scheme collapsed.

Investments: using unrealized profits from one securities or commodities POSITION as COLLATERAL to buy further positions with funds borrowed from a broker. This use of leverage creates increased profits in a BULL MARKET, and causes MARGIN CALLS and large losses in a BEAR MARKET.

Marketing: legal marketing strategy whereby additional distributorships are sold side-by-side with consumer products in order to multiply market reach and maximize profits to the sales organization.