

Terminology of Convertible Bonds

This area provides a brief explanation of English terms that are relevant to convertibles. The explanations assume that the reader has a certain basic understanding of the topic.

*In order to search for a term, first click into this window and then enter the key combination <CTRL> - <F> or select **Edit --> Find** in the browser menu. This will call up a dialog window in which you may enter the search term.*

Accrued interest

Interest that has accumulated since the last coupon or interest payment. Interest on Eurobonds is calculated on a 30/360-day basis. The buyer of a bond pays the seller the market price plus accrued interest and is entitled to the entire interest amount when the next coupon is paid. Exceptions to this include bonds that are traded in default as well as so-called income bonds that are traded flat (bonds that have calculated the accumulated interest into the market price).

Adjustable-rate bond

A security with an interest rate or dividend rate that is periodically adjusted to changing market conditions, usually based on a benchmark rate (e.g. LIBOR or 6-month government securities). Adjustable-rate bonds normally have a floor (lower limit for the interest rate or dividend rate) and a cap (upper limit for the interest rate or dividend rate).

American-style option

Option that may be exercised at any time prior to expiration.

Antidilution clause

A provision that protects the owner of a convertible bond by providing for adjustment of the conversion ratio in the event of stock splits, stock dividends, free options or the sale of new stock below the conversion price of the convertible. This prevents the dilution of the owner's option.

Arbitrage

The simultaneous purchase and sale of securities based on the same underlying asset in order to take advantage of pricing differentials created by market conditions. In the case of convertible bond securities, this can be the purchase of a convertible at a price below the conversion value and the simultaneous short sale of the underlying asset (normally shares). At the time of conversion, the short equity position will be covered by reception of the underlying shares.

Base currency	The currency in which the investor operates (also known as the reference currency).
Bearer bonds	Bonds whose owner is not registered on the books of the issuer. The physical possession of the bonds serves as proof of beneficial ownership.
Beta	The measure of a security's sensitivity in relation to a benchmark rate or to the entire market. A beta of 1.0 would indicate that a security (e.g. a stock) moves perfectly in line with the benchmark market (e.g. the entire market or stock index). A beta of 0.5 would signify that a security moves 50% more slowly than the entire market or its index. A beta of 2.0 would indicate that a security moves twice as strongly as the entire market or its index.
Bond currency	The currency in which a bond is denominated and sold.
Bond indenture	The formal agreement governing a bond issue. This agreement covers such considerations as the interest rate, the interest payment dates, the maturity date of the bond, the repayment conditions, the conversion provisions and an antidilution clause.
Bond price quotation	The price at which the securities are traded in the market. This price can be expressed both as a percentage of the par value (e.g. 90%) and as an absolute amount in the corresponding currency (e.g. USD 900). Thus 90 represents a price of 90% of the par value of a bond or USD 900 for bonds with a par value of USD 1,000 each.
Bond value	Also known as <i>investment value</i> , <i>debt value</i> , <i>investment floor</i> and <i>straight bond value</i> . The price at which a convertible bond would have to sell as a conventional bond relative to yields of other bonds of similar maturity, size and quality. With this method, it is possible to split up a convertible into the two components of <i>bond value</i> and <i>equity value</i> and determine how strongly the convertible bond moves in response to interest rate fluctuations and changes in the underlying asset.
Break even time / period or payback time / period	The yield on a convertible is normally higher than the dividend yield on the underlying instrument (equity). This circumstance is known as a <i>yield advantage</i> . The <i>breakeven time/period</i> or <i>payback time/period</i> measures the time it would take for the yield advantage on the convertible to equal the conversion premium. The <i>breakeven</i> can be calculated in various ways. It is possible to employ the <i>equity method</i> , the <i>point method</i> , the <i>percent method</i> or the <i>yield-to-put method</i> . An especially important point to consider is that early repayment of convertible bonds can invalidate the calculation of the <i>breakeven</i> .

Bullet convertible

A convertible that cannot be called during its lifetime.

Busted convertible / broken convertible

A convertible that trades like a conventional bond because the market price of its underlying equity has performed very poorly. Such convertible bonds are characterized by a notably high yield and an exceptionally high conversion premium. These convertible bonds are similar to a normal bond. Convertibles exhibiting this behavior can be found in liquid markets. In illiquid markets, the yields on the convertibles can increase sharply while the premiums simultaneously fall or even turn negative (= discount). These convertibles display a relatively modest protection component and behave atypically. Nevertheless, such convertibles provide exceptionally good opportunities since the premiums are not exceptionally high and thus the convertible can react instantly to changes in the underlying security.

Buy-In

Used in hedging strategies. If stock can no longer be borrowed to maintain a *short* position, the broker will be required to *buy-in* to close the *short* position. It is sufficient if the counterparty is merely informed of this action.

Call feature

The right to redeem a bond issue prior to maturity at a stated price, which normally begins at a premium to the issue price and declines annually until the repayment price is identical to the issue price. Nowadays, new convertible issues are usually non-callable for at least two years.

Call option

The right to buy a specific number of an underlying asset (stocks, bonds, precious metals, etc.) at a predetermined price before a preset deadline.

Call price

The price at which the issuer has the right to redeem the bond before maturity.

Call protection

The period during which a convertible cannot be called. Convertibles that cannot be called during their entire lifetime are known as *bullet convertibles*.

- See: Bullet convertible

Call strike price

The predetermined price at which a call can be exercised before a preset deadline.

- See: Exercise price

Call terms and provisions

The terms and provisions of callable convertibles must be stated at or prior to issuance. The call terms indicate when and under what circumstances the convertibles can be called. Convertibles often have special provisions subject to the underlying stock's price. For example, a convertible cannot be called for three years from issuance and from then on only if the underlying stock reaches a specified price level. Such a call feature is known as a *provisional call*.

- See: Provisional call protection

Capitalization

The market capitalization of a company.

Capital market line

A graphic representation of the long-term risk-return relationship of financial instruments.

Cash-Plus convertible

A convertible that requires a cash payment upon conversion.

Coefficient of variation

The 3-month standard deviation of an investment strategy divided by the average return. The result is then multiplied by 100. When various strategies are compared, the one with the lowest coefficient of variation is the best.

Conditional call

Circumstances under which an issuer can call the outstanding convertible before maturity. Usually expressed as a percentage of a stock's trading price during a particular period, such as 140% of the exercise price during a 30-day trading span.

Conversion

The exchange of convertible securities for a preset number of a predetermined underlying asset.

Conversion feature

The right provided by the terms and provisions of an issue to obtain a specific number of an underlying asset at a specific price during a specific period. Convertible securities can be exchanged into such assets as shares of the issuer, shares of other companies, precious metals, commodities, cash or a combination of these assets.

Conversion parity / conversion value / stock value

The value of a convertible upon conversion into the underlying equity. This is equal to the number of underlying shares per bond multiplied by the current market price of the underlying equity. For example, if the conversion ratio of convertible XY is 40 shares per bond and the underlying equity is traded at USD 30, the conversion parity is 120% (= 40 shares x USD 30 = USD 1,200). If the convertible is trading above the conversion parity, it is better to sell the convertible than to convert it. The conversion value represents the intrinsic value or stock value of the convertible.

Conversion period

The period during which convertible securities can be exchanged for the underlying assets.

Conversion premium

The amount by which the market price of a convertible exceeds its conversion value. The conversion premium is expressed either as a percentage of the conversion value or as points. The premium can also provide an indication of how strongly the price of a convertible will track price movements in the underlying asset. Convertibles with low premiums are normally more price sensitive to movements in the underlying equity than those with high premiums. Convertibles with high premiums are normally more price sensitive to movements in interest rates than those with low premiums.

Conversion price

The price at which the convertible can be exchanged into the underlying security. The conversion price can be calculated by dividing the par value of the bond by the conversion ratio. For example, if the conversion ratio is 40 underlying shares per bond and the bond's par value is USD 1,000, the conversion price amounts to USD 25 (= USD 1000 divided by 40 = USD 25).

Conversion price reset

The right of the issuer to reset the conversion price on one or more specific dates. This makes it possible to maintain a particular conversion premium over a longer period.

Conversion ratio

The number of underlying shares for which a convertible can be exchanged. The conversion ratio can be calculated as follows: par value of the bond divided by the conversion price. For example, if the par value of convertible XY is USD 1,000 and the conversion price is USD 25 per underlying share, the conversion ratio amounts to 40 underlying shares per bond (= USD 1000 divided by USD 25 = 40). The conversion ratio is normally protected against dilution.

- See: Antidilution clause

Convertible arbitrage

- See: Arbitrage

Convertible bond / debenture / preferred share

Convertible securities that can be exchanged for one or more underlying assets. Convertible bonds or debentures are issued by a borrower and can be exchanged into underlying shares of the issuer. Exchangeable bonds or debentures are issued by a borrower and can be exchanged into underlying shares of a third-party company, but not the issuer, or into precious metals, commodities, etc.

Convertible bond indenture

- See: Bond indenture

Convertible debt spread

The difference between the yield on a convertible and a conventional bond with similar features and of similar quality.

Convertible hedge / hedging

A strategy in which undervalued or overvalued convertibles are bought and the risk is reduced through short selling of the underlying stock or through buying/selling call and/or put options, thus making it possible to exploit the incorrectly valued situation.

Convertible instrument

- See: Convertible bond / convertible debenture / convertible preferred share

Convertible preferred / Convertible preferred share

A preferred share that is exchangeable into a common share. Convertible bond preferred shares have characteristics similar to those of convertible bonds but represent equity capital of the corresponding firm. The dividends are paid quarterly or semiannually, or they are accumulated and paid at a later point in time. Convertible preferred shares come in denominations of USD 25, 50 and 100. The dividend amount can be expressed either in currency units or as a percentage of the par value. The size of an issue is expressed in terms of the number preferred shares issued. US firms that have outstanding convertible preferred shares are entitled to declare 70% of the dividend payments as tax-free. Many countries have adopted this rule, but there is no uniform international standard in this regard.

Convertible price curve

A graphic representation of the expected price sensitivity of a convertible to movements in the underlying security and in interest rates in the near future.

Convertible risk level

An indication of the broad overall risk level of a convertible, including both equity and bond risk measures. It is a means to distinguish between the various investment opportunities available on the basis of *relative risk*. Three levels of risk are adopted: low, medium and high (or aggressive).

Convertible security	<p>A hybrid financial instrument that combines an equity component and a bond component. Such financial instruments allow investors in an efficient market to participate in the upside potential of a stock while limiting the downside risk.</p> <ul style="list-style-type: none"> • See: Bond value; Convertible bond / convertible debenture / convertible preferred share; Convertible preferred / convertible preferred share
Convertible strategies line	<p>A graphic representation of the possible risk and expected return of various investment strategies that employ convertible securities.</p>
Coupon	<p>The interest rate that is paid quarterly, semiannually or annually.</p>
Coupon reset	<p>The right of the issuer to reset the interest amount on one or more specific dates. This makes it possible to adjust the coupon to changing market conditions.</p>
Covered short sale	<p>A short sale against a convertible security is considered covered since the convertible may be converted to cover the short sale at any time. No additional margin is required for a covered short sale.</p>
Current yield	<p>The annual interest rate divided by the market price of the convertible.</p>
Debt component	<p>The stated interest rate on a convertible security that the investor is entitled to.</p>
Debt floor / Debt value	<ul style="list-style-type: none"> • See: Bond value
Default	<p>The failure of a debtor to fulfill its obligations to the creditors. For example, the debtor may fail to make interest payments, fail to amortize the debt via a <i>sinking fund</i> or fail to repay the debt at maturity.</p>
Delayed conversion	<p>A convertible that cannot be converted prior to a specific date following issuance.</p>
Denomination	<p>The minimum face value and the currency in which a security is issued and sold.</p>
Discount bond	<p>A bond that is issued and sold below par (under 100% of the par value).</p>

Discounted yield advantage method	A valuation method that compares the net present value of a convertible's revenue streams with the premium in excess of conversion value.
Dollar premium	The difference between the market price and the conversion value of a convertible security, expressed in a currency (= USD) or in points.
Domestic convertible	A convertible security that is issued in the country of the issuer and in its currency.
Duration	Weighted average time to full recovery of the interest and principal payments of a bond.
Effective exercise / conversion price	The conversion value stated in the local currency. This is often important if convertible securities are callable. The effective conversion price should also always be stated in the event of a <i>mandatory conversion</i> , i.e. the investor must accept the underlying stock instead of cash when a <i>mandatory convertible</i> reaches maturity. <i>Mandatory convertibles</i> are not an especially popular form of convertible since the possibilities for the investor are severely limited.
Equity bond units	A security that consists of a bond and a warrant for an equity.
Equity options	Put and call options on an underlying equity security (mostly common stock).
Equity value	<ul style="list-style-type: none"> ● See: Conversion parity / conversion value / stock value
Equivalent conversion price	The effective conversion price. This is translated into the currency of the bond by applying the foreign exchange rate. This is necessary if you want to calculate the conversion ratio but the currency of the bond is different from the local currency.
EROI (Expected Return On Investment)	A statistical measure of the expected return of an investment (e.g. a convertible security).
Euroconvertible	A convertible issued in more than one country and in a eurocurrency by an international syndicate.
Eurocurrencies	Currencies deposited in a bank outside their country of origin.

European-style option	An option that can only be exercised on the expiration date.
Exchangeable convertible preferred stock	A convertible preferred stock that can be exchanged for a convertible bond with the same terms at the option of the investor.
Exchangeable investment / Exchangeable security	<p>Similar to a convertible bond or convertible preferred stock, but exchangeable into the equity of another company instead of the issuer. Can sometimes also refer to an instrument that can be exchanged into another security of the issuer, e.g. into a conventional bond.</p> <ul style="list-style-type: none"> ● See: Convertible bond / convertible debenture / convertible preferred
Exercise price	The price at which an option can be exercised. It is often referred to as the <i>strike price</i> . The underlying instrument is either bought (call option) or sold (put option) at the <i>exercise price</i> . The <i>exercise price</i> is stated in the case of option contracts, warrants, SCOREs and convertible securities.
Expected return	Expected value or mean of all the likely returns of a security or a portfolio. The mean value of the probability distribution of possible returns.
Expiration date	Last date on which an option, warrant or right of convertibility can be exercised.
Expiration of convertible privileges	Last date on which conversion can be exercised for a convertible.
Fabricated convertible bond	<p>Combining an option/warrant and a bond to create a synthetic convertible. This makes it possible, in markets where no convertible bonds are available, to participate in a defensive way in the upside potential of the equity market through a self-defined risk-return profile. The risk-return profile is shaped by such factors as the coupon of the bond, the conversion ratio of the synthetic convertible and the yield at which the bond is purchased. For synthetic convertibles, it is sensible to seek the best available quality for the bond component and to devote a modest amount to the creation of the so-called equity component through options or warrants. It is particularly important to consider the time value and the time decay of the synthetic equity component since both standardized options and OTC options normally have shorter life spans than the option right embedded in a conventional convertible.</p> <ul style="list-style-type: none"> ● See: Synthetic convertible bond
Face value	The repayment value of a bond, also known as the par value.

Fair value price	The price at which neither the buyer nor the seller derives an advantage.
Fixed exchange rate	The exchange rate fixed at the bond's time of issue in order to express the effective conversion price (in local terms) in the currency of the bond. This results in a specific number of shares per bond.
Fixed-income-plus-option-method	An evaluation method that combines the theoretical value of the bond component with the theoretical value of the equity component of the convertible.
Forced conversion	To prompt early repayment of a convertible (i.e. to call a convertible). The issuer normally will force conversion when the underlying stock is selling well above the conversion price, thus assuring that the bonds will be retired without requiring any cash payment.
Foreign convertible	A convertible that a foreign borrower issues in the domestic market and currency of another country.
Full hedge	A hedged position in which the amount of the short equity position is identical to the amount of the underlying shares obtainable through a convertible. This is also referred to as a 100% hedge position.
Gearing	A measure expressing the magnitude of the stock's leverage effect on the option component of the convertible. Gearing or leverage is also employed in the field of warrants.
Grey market	The market that operates before a security is launched into the regular market by the issuing syndicate. This market is based on the <i>if and when issued</i> principle, i.e. the principle that all transactions only become valid if and when the issue truly reaches the regular market. Otherwise, all transactions carried out on an <i>if and when issued</i> basis will be declared null and void.
Hedge ratio	The number of underlying shares sold short or represented by an option divided by the number of shares into which the bonds are convertible or the option can be exchanged.
Hedging	A strategy involving the sale of one security or option against the purchase of another identical or similar security or option. The object is to minimize risk while attempting to take advantage of any inefficiencies in the market.
Indenture	<ul style="list-style-type: none"> ● See: Convertible hedge / convertible hedging ● See: Bond indenture

Index options	Call and put options based on a stock market index.
In the money	Refers to the situation in which the price of an underlying instrument is above the exercise price (= strike price) of a call option or below the exercise price of a put option.
Intrinsic value	The amount by which an option is in the money. If we assume that an option can be exercised immediately, we can also describe this value as the <i>cash value</i> of the option. This value is also sometimes known as the <i>tangible</i> value. The intrinsic value can never be negative.
Investment floor	<ul style="list-style-type: none"> See: Bond value; Debt floor / debt value
Investment grade convertible	A convertible that Standard & Poors rates <i>BBB</i> or better, or that Moody's rates <i>Baa</i> or better.
Investment premium	The amount by which the market price of the convertible exceeds the so-called <i>investment value</i> . This value is expressed as a percentage of the <i>investment value</i> .
Investment value	<ul style="list-style-type: none"> See: Investment floor; Bond value; Debt floor / debt value
Investment value premium	<ul style="list-style-type: none"> See: Investment premium
Investment value yield	<p>Estimated yield to maturity used to evaluate the bond value of a convertible.</p> <ul style="list-style-type: none"> See: Bond value; Debt floor / debt value; Investment value
Issue size	Indicates the size of a convertible bond issue in millions of currency units. The size of an issue of <i>convertible preferred shares</i> is stated in terms of the number of shares. Issue size can be helpful in estimating the market liquidity of an issue.
Junk bond	High-yield bonds that are often issued by smaller companies. Convertibles in this category are usually rated <i>B</i> or below by Standard & Poors.
Mark-to-Market	The accounting adjustment used to keep short positions in line with the current market valuation.
Maturity date	The due date of a security.

Neutral hedge ratio	A measure of how many underlying shares to sell short (against a long position in the convertible) to offset changes in market prices.
Next call price	The price at which the issuer may redeem the convertible bond or convertible preferred stock before maturity. The conditions for early redemption must be determined at or prior to issuance. The earliest call date is the most significant for the investor since the price fixed for this date is decisive for valuing a convertible bond or convertible preferred stock.
Option	<ul style="list-style-type: none">● See: Call option; Put option
Option premium	The price of an option.
Original issue discount (O.I.D.)	Indicates the annual price adjustment of zero coupon bonds necessary to maintain the original yield to maturity. <ul style="list-style-type: none">● See: Discount bond
Out of the money	Refers to the situation in which the price of an underlying instrument is below the exercise price (= strike price) of a call option or above the exercise price of a put option.
Overvalued convertible	A convertible that is too expensive as determined by a theoretical valuation model. Investors who follow traditional investment strategies should avoid such convertibles. Overvalued convertibles may experience sudden, massive price drops without any change in the value of the underlying equity.
Parity	<ul style="list-style-type: none">● See: Conversion parity / conversion value / stock value
Partial hedge ratio	A hedged position in which the amount of the short equity position is not identical to the amount of the underlying shares obtainable through a convertible. This is a hedge position that is not 100% market neutral, i.e. there is a market risk at all times.
Par value	<ul style="list-style-type: none">● See: Face value
Positiv yield advantage	Convertible bonds or convertible preferred shares normally enjoy a yield advantage over the underlying instrument. The positive yield advantage is the difference between the convertible's yield and the yield on the underlying equity.
Premium over conversion value	<ul style="list-style-type: none">● See: Conversion premium

Premium over investment value	<ul style="list-style-type: none"> ● See: Investment premium
Profit profile	A graphic representation of the risk-return relationship that is used to compare various investment strategies.
Provisional call protection	<ul style="list-style-type: none"> ● See: Call terms and provisions
Put exercise date	The date on which the investor may sell the bonds back to the issuer prior to maturity.
Put feature	The right of the investor to force early repayment of the bonds.
Put option	The right to sell a specific number of an underlying asset (stocks, other bonds, precious metals, etc.) at a predetermined price before a preset deadline.
Put strike price	<p>The predetermined price at which a put can be exercised before a preset deadline.</p> <ul style="list-style-type: none"> ● See: Exercise price
Redemption	The repayment of all or part of the outstanding amount of a security prior to or at maturity. If a convertible is selling above the repayment price at the time it is called, this is equivalent to a forced conversion.
Registered bond	Bonds that have a serial number for identification purposes.
Risk-reward analysis	A mathematical valuation method of convertible securities compared with their underlying instruments. This approach is often applied to <i>hedge funds</i> in order to identify and take advantage of technically undervalued situations.
Rolling put feature	A put option with multiple exercise dates and exercise prices.
Sharp measure / Sharp ratio	The average return achieved through an investment strategy over a given period minus the interest rate of <i>US Treasury bills</i> or <i>US Treasury bonds</i> and then divided by the standard deviation of the portfolio. The investment strategy with the highest <i>Sharpe measure / Sharpe ratio</i> is considered best. A <i>Sharpe measure / Sharpe ratio</i> of 1 or more is considered outstanding and is thus seldom achieved.

Short exempt

In this procedure, first the underlying equity is sold short and then it is subsequently covered through conversion of the convertible within a short period of time. This is used frequently when technically incorrect situations arise in the market and a convertible bond or a *convertible preferred share* is simultaneously called.

Sinking fund

The right of the issuer to redeem parts of the outstanding bond issue prior to the scheduled maturity. The bonds called through the *sinking fund* procedure are chosen through a random selection process.

Standard deviation

A statistical measure of the degree to which an individual value in a probability distribution (e.g. the return on a stock) tends to vary from the mean value of the distribution. In the case of similar investment strategies or comparable portfolios, the standard deviation can be used to indicate the various historical volatilities or degrees of risk.

Standard risk

- See: Volatility

Stock dividend yield

Annual dividend of a stock divided by the current stock price and then multiplied by 100.

Stock value

- See: Conversion parity / conversion value / stock value

Straight bond equivalent yield

- See: Bond value

Strike price

- See: Exercise price

Stripped yield

Return on the bond component after subtracting the return on the equity or option component of the instrument from the market price.

Subordinated debenture

Debentures that are junior to so-called *senior* debt in the event of bankruptcy. Most convertibles are issued on an unsecured basis and are therefore *subordinated debentures*.

Swap / Swapping

The sale of one security to purchase another. The objective of *swapping* is to improve the conditions of a portfolio, e.g. yield enhancement, premium enhancement, shortening or lengthening the maturity, etc.

Synthetic convertible bond

Combines a non-convertible financial instrument (e.g. a bond) with a convertible financial instrument (e.g. an option) to create an instrument that behaves like a technically comparable convertible bond. Synthetic convertibles are frequently created in markets in which investors wish to invest defensively but there are no true convertibles available.

- See: Fabricated convertible bond

Systemic risk

The portion of equity risk that is due to general fluctuations in the market.

- See: Unsystematic risk

Tangible value

- See: Intrinsic value

Time value

The time value of an option. This value declines as the time remaining until expiration of the option decreases. This is also referred to as the so-called time decay. Options with very short residual maturities should normally be avoided because the time decay can rarely be offset by gains in the price of the underlying instrument.

Total Risk

- See: Volatility

Trading flat

Bonds bought and sold without the payment of accrued interest. So-called *income bonds* and bonds in *default* are traded flat.

- See: Accrued interest

Transaction exposure

The influence of fluctuating exchange rates on the income, expenditures and profitability of an investment.

Translation exposure

Currency risks due to uncertainties involved in converting assets and liabilities from a foreign currency into the local currency.

Undervalued convertible

A convertible that is too cheap based on a theoretical valuation model (risk-reward analysis). Undervalued convertibles, which frequently exhibit excellent investment characteristics compared with the underlying instrument, may experience sudden, massive price gains without any change in the value of the underlying stock.

- See: Overvalued convertible

Underwriter	The lead underwriter of a new issue. The <i>underwriter</i> is responsible for providing information on the issue and the issuer so that investors can form an opinion about the attractiveness of the investment.
Unit convertible bond	A convertible that can be exchanged into more than one underlying instrument. The underlying instrument of a unit convertible bond may or may not be an equity.
Unsystematic risk	The portion of equity risk specific to the company's financial condition or industry group. <ul style="list-style-type: none">● See: Systematic risk
Upside Beta / Downside Beta	This mathematical formula indicates the price sensitivity of a convertible bond to changes in the overall market (excluding the income component of the convertible). <ul style="list-style-type: none">● See: Beta
Variance	<ul style="list-style-type: none">● See: Volatility
Volatility	The standard deviation of a stock's performance over a specific time period. This indicates the total risk. Volatility is frequently also referred to as variance or as standard risk.
Warrant	An option to buy or sell an underlying instrument according to predetermined conditions. Warrants do not pay dividends and have no voting rights.
Warrant premium	The difference between the market value of a warrant and its exercise price expressed as a percentage.
Yield advantage	The difference between the yield on a convertible bond or a <i>convertible preferred share</i> and the yield on the underlying instrument. <ul style="list-style-type: none">● See: Positive yield advantage
Yield to maturity	The rate of return on a bond that takes into account the premium or discount relative to par value, the interest payments and the assumption that the bond will be repaid at par value at maturity. Given the yield to maturity of a bond, it is possible to calculate its net present value by means of discounted cash flows.

Zero-coupon convertible

A convertible issued at a deep discount from its par value that makes no periodic interest payments but instead accrues interest and is exchangeable into an underlying instrument. Also known as deep *discount bonds* and as *LYONs* (Liquid Yield Option Notes).

- See: Discount bond