

Invisible Hand, Research

Glossary of Terms

ECONOMIC TERMS

Analyst Reports – Reports made by trading firms on the health of companies in the market. These reports are composed by private analysts and provide advice on whether to buy or sell stock in a particular company or **basket**.

Basket – A group created to simultaneously buy and sell several securities at once.

Black-Scholes Models – A model for pricing stocks which assumes normal movement and makes it possible to estimate the price of “European-style” stocks over time using a “Black-Scholes Equation”. The model also shows the best way to minimize or eliminate risk through **hedging**.

Bretton Woods System – International monetary regime that established rules for financial relations among certain countries, aimed at providing exchange rate stability by tying currency standards to gold, which the United States guaranteed. The result was a US-dollar-centric global economy, even after the gold standard was abandoned in the 1970s.

See: Invisible Hand Research, BRETTON WOODS SYSTEM

Bears – Investors who think the market will fall.

Bulls – Investors who think the market will rise.

Call Option – A stock option which provides the right to buy 100 shares of the **security** the call option is tied to up until a particular date.

Capital Base – The initial investment plus subsequent investments into a **portfolio** – money reserved for use in the market.

Cash Position – The amount of cash a company has on its books at a specific point in time – money that can be used for investment, in this case.

Central Bankers – In Pakistan, the central bank is nationalized and run by a group of state officials in Karachi. They make policy decisions about lending, like the Fed, and influence interest rates and currency value.

Central Bankers – Governor of the State Bank – The head officer of the State Bank of Pakistan.

Citibank – Citibank in Pakistan has two locations in Karachi in the south, one location in Islamabad in the north, and one in Lahore in the east. They have been operating in Pakistan since 1961 and pioneered the first credit card in Pakistan.

Deep Web – Any part of the internet which is not indexed by standard search engines – and therefore inaccessible by the usual means of searching for something. Includes web mail, online banking, services with a paywall, and illegal trade.

Dividend – A distribution of a portion of a company’s earnings. When the company profits, it can allocate those profits to shareholders – which is what Bashir is describing on p. 74. “Communion Capital” is a fictional firm Nick and Bashir have stock in.

Fixed Exchange Rate – “Tying the rupee to a basket.” The central bankers of a country stabilizes its currency by agreeing to buy and sell that currency at prices that are completely dependent on the strength of another nation’s currency, or in Bashir’s suggestion, a **currency basket**.

Currency Basket – A group of securitized currencies. This is a way that traders buy and sell several currencies at the same time. Currency baskets tend to be more stable investments, since currencies from multiple countries’ fluctuations tend to balance each other out. This is also why fixing a currency’s strength to a currency basket helps to stabilize that currency’s strength.

Forex Trading – “Quick, rupee-related trades”. The process of trading options on **currency pairs**. To buy a currency pair, what you’re really doing is buying the **base currency** and selling the equivalent amount of the **quote currency** – i.e., selling X number of Rupees to buy Y number of Dollars, because you expect that the value of rupees will go down relative to the dollar in the future.

Currency Pairs – How currencies are priced in the forex market by comparing exchange rates of two given currencies. Trading options on currencies via currency pairs is a way of speculating on the strength of currencies relative to one another, as Nick is doing with the rupee and various other currencies.

Base Currency – The currency you buy when you buy a currency pair. This is the currency you end up with in that trade.

Quote Currency – The currency you sell when you buy a currency pair. This is the currency you use to purchase the base currency.

Future – A buyable and sellable commitment to buy or sell an asset at an agreed-upon price, regardless of future price fluctuations.

Gulab Jamun – A milk-based solid sweet. Comes in many varieties. Often eaten at major celebrations or holidays.

Hedge Fund – A group of investors seeking to maximize or guarantee profit by unusual trading methods and strategies.

Hedging – A method of trading whereby a trader both buys and sells an asset in a particular way to offset any risk of losing money.

Illiquid Assets – Any asset that cannot be sold or exchanged for cash quickly without a “substantial loss in value”. As Nick says, “Real estate.” Widely understood to be a good way to hide laundered money – many apartments in London and New York are purchased as shelters for laundered money.

Insolvency – The state of being unable to pay the money owed. In this case, it refers to the government of Pakistan being unable to use Rupees, whose value has plummeted, to pay debts.

Leverage – Any methods used to increase the potential returns of an investment.

Lexis-Nexis – Company providing legal research and accessibility via computer for legal and journalistic documents. Often used for journalistic research, business research, and risk-management services.

Karl Marx – Economist, philosopher, held that human societies develop through class structure and advocated for control of the “means of production” to be given to the working classes. Author of “Das Kapital”, famous for writing that “religion is the opiate of the masses.”

Money Laundering – Processes of dubious legality by which illegal money gains can be made to seem clean. Some examples include: converting money into casino chips secretly and cashing out at a low-regulation casino; or paying a “smurf” to make many small deposits in different accounts to avoid suspicion.

Article: <http://www.businessinsider.com/beginners-guide-to-money-laundering-2014-10>

Hawala Brokers – Hawala is an arab word meaning “transfer”. Hawala trading is complex brokerage system which relies entirely on the honor system. The launderer pays money to one broker, who makes a promise with another broker to pay him that sum in the future. The second broker, without having received any funds, pays their own equivalent sum to a recipient. The brokers settle the promise informally, and the customers receive the correct amounts. The honor system helps to obfuscate trails of cash, and Hawala trading is often used to launder money.

Moving Average – A sort of “line of best fit” for a stock’s price changes in a given amount of time. It filters out the “noise” from random price fluctuations. There are two kinds of widely used MA:

Simple Moving Average – average price of a security over a given amount of time.

Exponential Moving Average – gives more weight to more recent prices.

Official Registrant – The person who registered an account, and therefore is on official records as the owner of that account.

Open Interest – The total number of options and/or futures contracts not closed or delivered on a particular day. Increasing open interest indicates that a price movement is strengthening (people are entering the market more) and decreasing or “drying up” open interest indicates that a price movement is weakening (people are getting out of the market) and could halt or reverse.

Options Chains – A system of presenting quotes of all the options for a given security, including **put option** and **call option strike prices**. Options chains present put and call options with a variety of prices and expiration dates so you can make an informed choice about buying options.

Position – An amount of a security, commodity, or currency that is bought or sold.

Long Position (longs) – Buying a security, commodity, or currency with the expectation that its value will go up over time. Opposite of shorting a security. See “shorting”.

Privatization – The transfer of ownership of a public service (in this case, water) from public ownership by the government to the private sector – either a for-profit or nonprofit business.

Options

Put Option (options to sell) – A stock option which provides the right to sell assets on an agreed price up until a particular date. By buying “put options”, an investor is betting a stock will go down in value, and can make money by ensuring they sell the stock at the value it was when they bought the put. The buyer also has the choice not to exercise the option – in which case, all that is lost is the fee spent on buying the put.

Call Option (options to buy) – A stock option which provides the right to buy assets on an agreed price up until a particular date. By buying “call options”, an investor is betting a stock will go up in value, and can make money by ensuring they buy the stock at a cheaper price than where it ends up. The buyer also has the choice not to exercise the option – in which case, all that is lost is the fee spent on buying the call.

Security – A financial instrument that represents some kind of financial value. Securities are the way that the financial community standardizes trading many different kinds of assets.

Securitization – The process by which an asset (real estate, debt, company ownership) is transformed into a security for trading.

Sell at market – This is the “current” price, i.e. the price of the last trade.

Sell at the current ask – This is the “best potential price” that buyers are willing to transact. They are “tip of the iceberg” prices. In this case, they don’t match the market price. Nick is explaining that if they sell at market, the buyer will wait to let the price drop by fractions and skim the fractions off, keeping that money from coming to Nick and Bashir.

Shorting – By borrowing shares and selling them immediately, then waiting until those shares decrease in value and buying the shares back to return them to the borrowee, you can make a profit of the difference between the initial price of the stock and the price of the stock after the price dropped.

Strike Prices – The price at which a security can be bought (for call options) or sold (for put options)

Stock – A tradeable security that represents a claim on the earnings and assets of a corporation.

Stock Charts – Graphic representation of the price movement of given stock(s).

Stochastics – events or systems that are unpredictable due to one or more random variables. In finance, stochastic models are used to represent seemingly random behavior of assets – stocks, commodities, currency.

Stochastic Oscillator – A momentum indicator comparing a security’s closing price to a price range over a given time period. The model makes it easier to find a **moving average**.

Trading Curb – A financial instrument that halts trading to prevent speculative gains or market crashes. “how long it takes them to shut down trading.”

Union Bank of Switzerland – A Swiss global finance services company, considered the world’s largest manager of private wealth assets.

Volume – The number of transactions for a security during a given period of time. When volume drops, that means fewer transactions are happening.

PAKISTAN / ISLAM

Abbottabad – Location of the Pakistan Military Academy. Location of the compound where Osama Bin Laden was killed. Just west of Kashmir, in the northeast of Pakistan.

Bahawalpur – A city south of Lahore, with a principally agriculture-based economy. The Bahawalpur Times is fictional.

Daniel Pearl – A journalist for the Wall Street Journal who was kidnapped by Pakistani militants and murdered in 2002 when ransom demands were not met.

Drones – Unmanned combat aerial vehicles. The United States has been using drones to bomb targets in Pakistan since 2004.

Faisalabad – A city in Punjab Province. The third most populated city in Pakistan. Approximately 4h from Multan.

Imam – An Islamic leadership position, most often based around being a worship leader of a mosque and Muslim community. “In everyday terms, the imam for Sunni Muslims is the one who leads Islamic formal prayers, even in locations besides the mosque, whenever prayers are done in a group of two or more with one person leading (imam) and the others following by copying his ritual actions of worship.”

While many imams are scholars who have been brought into the scholarly class before becoming Imams, Muslims are not required to be scholars to lead worship at a mosque and therefore can become Imams without making this class transition.

Indus River – The longest river in Pakistan. It and its tributaries are what create the Indus River Basin, which is the key, via irrigation, to Pakistan’s agriculture industry. This is possibly the “river” that Bashir refers to.

Islamabad – The capital of Pakistan and the center of its government.

Jhelum – A city in the Punjab province, in the northeast of Pakistan. On the right bank of the Jhelum river with a humid, subtropical climate.

Juma prayers – Friday prayers held just after noon instead of the “Zuhr prayer”. Participants listen to a sermon by a religious leader called the Khatib (who is also often the Imam), then recite the first half of the Zuhr prayer, then recite a congregational prayer led by the Imam.

Lashkar e Jhangvi – a Sunni Supremacist and Jihadi militant organization. Lashkar is based out of Lahore, but when the Taliban took control of Afghanistan, Lashkar moved operations to that country.

Multan – A city in east Pakistan, famous for its crops. It is approximately 7 hours by car from Jhelum.

Musharraf – General Pervez Musharraf, the tenth president of Pakistan. Was threatened with impeachment in 2008 and resigned to avoid it. The country has issued warrants for him for his alleged involvement with the assassination of Benazir Bhutto.

Ramzaan – The ninth month of the Islamic calendar, observed worldwide as a month of fasting to commemorate the first revelation of the Quran to Muhammad.

Sahib – a term of respect when applied to a name or title.

Sindh Province – One of four provinces of Pakistan, located in the southeast. It has a highly industrialized economy.

LONDON / THE REST OF THE WORLD

UCAS – Universities and Colleges Admissions Service. The application portal used in Britain to apply to universities.

Grand Cayman – A British territory. Its offshore banking industry makes it possible for people to hide wealth there without paying taxes on it.

Hounslow – English borough located close to Heathrow airport. 20 – 26% of children in Hounslow are living in poverty, and it has a high percentage of nonwhite residents. Census indicates Pakistan is its third-largest source of migrants.

Stockholm Syndrome – a psychological phenomenon in which hostages express empathy and positive feelings towards their captors. The reverse, in this case, would be Bashir feeling empathy and positive feelings towards Nick.