Glossary

Bear: A dealer who speculates on a fall in price.

Bear market: A market in which the share price is falling. A bear speculator, also known as a bear or short seller, speculates on a fall in the market.

Bond: A written acknowledgement of debt. A VOC bond, for instance, was a piece of paper stating that the VOC was in debt to the owner of the bond.

Boom or bull market: Share price rises. This term is also used to designate a period of rising prices.

Broker: A middleman who mediated in transactions on the exchange. In seventeenth-century Amsterdam, brokers had to be members of the brokers' guild. They received a commission set by the guild for every transaction in which they were involved. Officially brokers were not permitted to trade on their own account—they were only allowed to bring buyers and sellers together—but this rule was broken all the time.

Bull: A bull speculates on the share price increasing.

Call option: The holder of a call option has the right to buy a share at a preagreed price (strike price) on the option date. The buyer of the option pays a premium when he enters into the transaction (see option premium) in order to acquire this right. If the spot price of the share on the exercise date (the price that day on the market) is higher than the strike price, the option is said to be "in the money." The holder will then exercise the option and the writer (seller) of the option must deliver the share. If the spot price equals the strike price, the option is said to be "at the money"; the owner can still exercise the option, but he will not make any profit on it. An option is "out of the money" if the spot price on the exercise date is lower than the strike price or exercise price. The option is then loss making, and the holder will let it lapse.

Derivative: The collective name for "derived" financial transactions. Derivatives derive their value from the asset (usually a share, but it can also be oil, gold, or soya beans) to which they are linked. The derivatives that share traders dealt in in seventeenth-century Amsterdam were options and futures contracts. In the case of futures contracts, dealers agreed that they would trade in a share on a particular date in the future at a previously agreed-upon price (see also forward contract). Needless to say, the price was related to the price of the VOC share. A share was only handed over in the event of settlement, which is why futures contracts are regarded as "derived" transactions. Options also derived their value from the VOC share, since the option premium was based on the chance that a particular market fluctuation would occur. However, what was dealt in an option transaction was not the actual share but the right to buy or sell that share at a specific price on a specific date.

Dividend: Profit share to shareholders. The VOC expressed its dividends as a percentage of the nominal value of the share capital. If the VOC announced a 10 percent dividend in cash, the owner of a share with a nominal value of 3,000 guilders could collect a sum of 300 guilders from East India House. The price at which a VOC share was trading on the exchange had no influence on the size of the payment the shareholder received. The VOC also regularly paid dividends in the form of spices or interest-bearing bonds. See also ex-dividend.

Exchange agent: A dealer who trades for someone else's account. Rodrigo Dias Henriques, who appears in this book a number of times, was an exchange agent. He received money from his clients (usually wealthy Portuguese Jews) to buy and sell shares on their behalf. In seventeenth-century Amsterdam, exchange agents received a fixed fee per transaction.

Ex-dividend: Nowadays shares are said to "go ex-dividend" on the day after it has been established which investors own a share and are thus entitled to the dividend. Investors who buy the share after it has gone ex-dividend are not entitled to the dividend and therefore pay a lower price for the share. The holders of VOC shares were free to choose when to go to East India House and collect the dividend they were due. For example, shortly after the dividend payment of April 1688 (33⅓ percent in cash) shares were in circulation on which a 1482.5 percent dividend had been paid since the foundation of the VOC in 1602 and shares on which "only" 1449 1/6 percent had been paid. The latter category consisted of shares whose owners had not yet been to East India House to collect their dividend. These shares still gave entitlement to a payment of 33⅓ percent. The price these shares were trading at was therefore 33⅓ points higher. All the share prices referred to in this book are ex-dividend.

Forward contract: A contract in which the buyer undertakes to purchase a share from the seller at a preagreed price on a specified date. The seventeenth-century traders settled their forward contracts by transferring the share at the agreed price, by paying the difference on the settlement date between the forward price and the market price at that moment of the VOC share, or by canceling out the contract against a reverse contract (a trader who had bought a forward contract could, for instance, cancel it out against a similar contract he had sold). See also derivative.

Haircut: The margin subtracted from the market value of an asset that is being used as collateral. The size of the haircut reflects the perceived risk associated with holding the asset. In the seventeenth century it was very rare for the full market value of a VOC share to be lent. Lenders applied a haircut to reduce the chance that the value of the share given as security would drop below the capital sum loaned as a result of a fall in the price. See also share collateral.

Investment sentiment: The inclination of a dealer to buy or sell.

Liquidity: The tradability of a share. If a share is liquid (in other words if there is a liquid market for it), it can easily be traded. In other words a dealer has little difficulty buying or selling a share. The liquidity of a share is also determined by the extent to which transactions influence the price. If, for instance, an order to sell a large number of shares brings the price down little, if at all, that share is very liquid.

Market maker: A dealer who is always prepared to buy or sell shares. A market maker earns money because he buys shares for just under the market price and sells them for a price just above it. Market makers ensure it is always possible to trade in a share. In the seventeenth-century market for VOC shares they provided an important service to shareholders who wanted to sell shares for which there was little demand. The only shares that were widely bought and sold had a nominal value of 3,000 guilders (or a multiple thereof). Market makers ensured that shares with nonstandard nominal values could also be traded.

Market value: The value of a VOC share on the stock exchange. A share with a nominal value of 3,000 guilders (at the baseline of 100 set in 1602) had a market value of 6,000 guilders at a share price of 200.

Naked short selling: Naked short sellers sold shares they did not own. They undertook sales transactions while their account in the VOC's books was empty. A dealer who shorted VOC shares had a negative position or was "short." Naked sellers speculated on a fall in the market.

Nominal value: The value of a VOC share as recorded in the capital accounts. See also market value.

Notarial writ: A notice read aloud by a notary. If two parties disagreed about a transaction, it was normal for one party (the individual commissioning the writ) to advise the other party (the individual being served with the writ) through the notary of what he believed he was entitled to. In the seventeenth century, notarial writs were considered to be the first step in possible legal proceedings.

Option: The right to buy or sell a share at a preagreed price (strike price). See call option, put option, straddle, and derivative.

Option premium: The price that a dealer pays to acquire an option. An option premium can be compared to an insurance premium: a specific risk (price risk in the case of share options) is covered in exchange for payment of the premium.

Put option: The holder of a put option has the right to sell a share at a predetermined price on the exercise date of the option. See also call option.

Repo: A repurchase agreement, also known as a repo, RP, or sale and repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a later date. See share collateral for a detailed explanation.

Share collateral: A lender would take a Dutch East India Company (VOC) share as security for a loan. The dealer then used that loan to pay for the share. Secured loans enabled dealers to take up VOC shares with a limited amount of their own money. In general the loan did not cover the full purchase price of the share; see haircut.

Share price: The price of VOC shares was expressed as a ratio of the current value to the value of the share capital when the subscription register was closed in August 1602. The August 1602 share price was set at 100. A price of 125, for instance, meant that the value of VOC shares had risen 25 percent relative to their value in August 1602. See ex-dividend for the effect of dividend payments on the share price.

Short selling: A trading technique in which a dealer sells borrowed shares. See also naked short selling.

Spot price: Cash price.

Straddle: A combination of a call option and a put option.

Volatility: The instability of the share price. If the price fluctuates significantly, it is said to have high volatility.

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