1. January Effect

Market anomaly whereby stock prices throughout most the world have a propensity to rise sharply during the initial part of the month of January.

2. Jensen’s Inequality

If $x$ is a random variable and $f(x)$ is convex, Jensen’s inequality states that $E[f(x)] \geq f(E(x))$. The inequality is reversed if $f(x)$ is concave.

3. Jensen’s Measure

The alpha of an investment. It can be defined as:

$$JM = (\overline{R}_i - R_f) - \beta_i [\overline{R}_m - R_f],$$

where $\overline{R}_i$ is an average rate of returns for $i$th asset or portfolio; $R_f$ = risk-free return; $\overline{R}_m$ = average market rates of return; and $\beta_i$ is the beta coefficient for the $i$th asset.

4. Johnson Hedge Model

Developed within the framework of modern portfolio theory. The Johnson hedge model (Johnson, 1960) retains the traditional objective of risk minimization but defines risk as the variance of return on a two-asset hedge portfolio. As in the two-parameter world of Markowitz’s (1959), the hedger is assumed to be infinitely risk averse (that is, the investor desires zero variance). Moreover, with portfolio optimization, the risk-minimization objective defined as the variance of return on the combined spot and futures position, the Johnson hedge ratio is expressed in terms of expectations of variance and covariances for price changes in the spot and futures markets. The Johnson hedge model can be expressed in regression from as:

$$\Delta S_t = \alpha + H \Delta F_t + e_t,$$

where $\Delta S_t$ = change in the spot price at time $t$; $\Delta F_t$ = change in the futures price at time $t$; $\alpha$ = constant; $H$ = hedge ratio; and $e_t$ = residual term at time $t$.

5. Joint Probabilities

In credit risk analysis, stand-alone obligors have some likelihood of each possible credit quality migration. Between two obligors there is some likelihood of each possible joint credit quality migration. The probabilities are commonly influenced by the correlation between the two obligors.

6. Joint Venture

A joint venture is a partial business combination. Two or more entities form a new corporation or partnership in order to jointly pursue a business venture. This provides an opportunity to combine resources in optimal proportions rather than in the fixed portfolio proportions dictated by a merger or a tender offer. The participants are partners rather than acquirer and target, and thus the formation of a joint venture does not cast one party as the aggressor, as in a merger or acquisition.

Common reasons for joint venture formation include facilitating technological transfer and developing market structures. International diversification also can give rise to joint ventures because some countries require local investment from any firm operating within their borders; others exempt firms with local participation from government regulations.

Joint ventures also can be used for undertaking certain massive projects. The development of Prudhoe Bay, Alaska, is one such example of a project joint venture.
7. Judgment

Legal ruling regarding the final payment of a court-determined transfer of assets.

8. Judgmental Credit Analysis

Subjective assessment of a borrower’s ability and willingness to repay debts.

9. Jumbos

Jumbos are negotiable certificates of deposits (CDs) by thrifts which are large-denomination ($100,000 or greater) time deposits with a minimum maturity of 7 days.

10. Jump-Diffusion Model

A process for an asset price in which the asset most of the time follows an Itô process but can also jump discretely, with occurrence of the jump controlled by a Poisson process.

11. Junior Liens

[See Second mortgages]

12. Junk Bonds

Noninvestment quality bonds are called junk bonds or high-yield bonds to reflect their higher risk and higher expected returns.