



## COLLINS SARRI STATHAM INVESTMENTS

# CSS Investments Complete Glossary of Market Terminology.

## A

**Advisory Stockbroking** - This phrase describes the situation where you are the manager of your own portfolio, with a regulated financial professional providing advice on the construction and allocation of the portfolio, as well as providing individual stock recommendations.

**AIM** - This is the Alternative Investment Market. A subsidiary of the London Stock Exchange, this is where companies that are growing or aren't large enough to be listed on the main exchange will list here, due to the entry requirements not being as specific as a full exchange listing.

**Alpha** - The amount of added value that a portfolio has based on stock-picking, relative to its comparable benchmark's return, when adjusted for risk.

**Amortisation** - In reference to an accounting term, this is where a company can reduce the value of its intangible assets over the amount of time the asset is expected to be in use.

**Arbitrage** - The act of buying in one market whilst selling in another to profit from the temporary difference in value, traders usually use *leverage* to magnify the return.

**Ask Price** - The price at which a security is offered for sale to a buyer. Ask = Buy price.

**Asset** - Any item that is owned, that has value.

**Asset Class** - This is a description which broadly covers investments with comparable characteristics. Examples include Equities, cash, bonds, and AIM.

## B

**Balance Sheet** - A record of accounts which highlights a company's overall worth, including assets, liabilities and shareholder equity at the time in which the report is created. Growth of a balance sheet has positive connotations with the company's success.

**Basis point (Bps)** - A term used to describe small percentage changes. 1 basis point is one one-hundredth of one percent. 1 basis point = 0.01%

**Bear** - Investor or investors who believe that the value of an individual stock or market is set to depreciate.

**Bear Market** - Traditionally, this term describes a market which has fell by 20% in value; it is a way to label a market which has been losing value for an extended period of time.

**Beta** - This is a measure of volatility of a portfolio or single stock in comparison to its relative benchmark. The higher the beta rating, the more volatile the stock or portfolio is. A rating of one indicates volatility will be higher than that of the Benchmark.

**Bid Price** - The price at which a security will be sold to a buyer. Bid = sell price.

**Black Monday** - Monday 19<sup>th</sup> October 1987, huge falls in market value on Wall Street triggered falls in markets around the world.

**Blue Chip** - A company with a long-established reputation which is considered stable. The highest value chip in poker is where its name comes from.

**Bond** - A type of loan or 'debt' made by a lender, to a borrower. Some bonds are publically traded and are issued by governments, national organisations and companies for a set time period. Interest is paid to the bondholder usually bi-annually at a fixed rate and can derive what 'fixed income' portfolios are made from. Bonds usually have a maturity date where the original amount lent to the borrower is paid back, in full.

**Bond Yield** - A bond yield is the percent amount an investor will expect to receive in income payment for purchasing the bond.

**Book Value** - The Net asset value of a company as calculated by a company's total assets minus their intangible assets and liabilities.

**Breakeven** - When used to describe investments, this is the point where an investment in to anything leaves you with neither a profit nor loss, when all costs are factored in. In some instances, breakeven point can be initial targets for investors.

**BRICS** - An acronym which is made up of the four largest emerging markets globally: Brazil, Russia, India and China. A recent addition has also included South Africa.

**Bull** - Investor or investors who are confident that the value of an individual stock or market is set to appreciate.

**Bull Market** - The inverse of a bull market, traditionally an expression given to a market which has risen by 20% in value. It is a way to describe a market which is increasing in value over an extended period of time.

**Buy Stop Order** - To buy a stock that is at a price above the current offering price, the order is executed when the market price touched or goes through the entry price, making this the 'buy stop'.

## C

**Capital** - The word used to describe wealth, in the form of money or other assets owned, available for activities such as starting a company or investing in the stock market.

**Capital gains Tax** - A type of tax levied on capital gains incurred by individuals and corporations, when an asset is sold at a high price than what was an original purchase price.

**Cash Flow Statement** - An accounting statement to summarise the amount of cash a business has generated over the previous 12 month of operation. It will include operating-activities (sale of goods and services) cash flow, investing activities (buying or selling of assets) and financing activities (stock sale, borrowing). Cash flow statement is one of the building blocks of fundamental analysis research.

**CDS** - This is an acronym for Credit Default Swap. This is a type of derivative which insures against the possibility of default on a bond. This is usually of preference to an investor rather than selling the bond, if it is illiquid or difficult to replace. This is a premium-paid service to a bank to protect the bond-holder.

**Charting** - The act of investors monitoring a stock's current and past performance to create a forecast predicting where the future value of a stock may go. Strategies are developed around certain patterns found on charts (see technical analysis)

**Closed Ended fund** - This is an investment company which is unable to issue further securities to meet investor demand. Instead, they have a fixed number of shares which are traded between investors on a public exchange. They are exempt from capital gains tax, and unlike an open-ended fund, they are permitted to borrow money.

**Compliance** - In simple terms, compliance is a state of being in accordance with established guidelines or specifications, or the process of becoming so. For financial services, the compliance body which regulates finance actions is the FCA - more can be found [here](#).

**Compound Interest** - The term to describe earning interest on the principal value and then interest earned on that interest earned, over a given time period. £5000 at 10% in one year becomes £5500, in the second year, you will have £6050.

**Consumer Price Index** - The main measure of inflation, this is an index which is encompassed by everyday goods and services - it measures the change in prices of a standard basket of goods consumed by a typical family over a month. Central banks often use this index to help determine their interest rate decisions.

**Contract for Difference** - A high risk derivative contract which allows you to capture and profit from the price movement of a stock either up or down, without ever owning the underlying asset. You will then profit (or loss) from the difference between the points the contract is opened to when it is then closed. Gains are taxable, and will use margin and leverage to empower returns.

**Correction** - When describing the stock market, a correction is a reverse movement usually negative of at least a 10% fall in value of a security, or index. Corrections are usually temporary price declines interrupting a price uptrend. They can however progress in to bear markets, then recession.

**Correlation** - This is a word to describe how similar the movement of two or more assets is in relation to the other. A highly correlated set of assets will mean that the price movement of one stock as an example, moves at a similar pace and volume as another comparative stock. Alternatively, negative correlation will be the concept that one stock's price will move completely different in accordance to another.

**Coupon** - This is the rate of interest payable on a bond. It is fixed upon the date of issue and usually will stay at that rate throughout its lifetime. The term coupon has a historic background, where original bondholders would return a physical coupon upon the due date of their interest payment.

**CREST** - The UK's electronic registration and settlement system for equity share trading, for UK and Irish registered equity and corporate stocks. This is where certificated shares will be dematerialised to.

## D

**Deficit** - If a country is exporting less than it is importing, it is said to be running in deficit, on the other hand, if a country is exporting more than importing (China as an example) then they are said to be operating in surplus. Countries can and will be operating in a surplus and a deficit at any given point in time.

**Deflation** - The word used to describe an economic slowdown in growth, where prices being to fall in goods and services over a given time frame period.

**Depreciation** - This is where an asset will lose value over a given time frame. In a business sense, it is the process whereby the cost of an asset is spread over the years a company hopes to own or use that asset, this cost is then taken from the profit over the course of the forecasted years of usage to give a fairer view of how the asset is being used, and so as to not write off the entire cost against profits in the year acquired.

**Derivative** - This is a traded security where its value is derived from the actual or expected price of an underlying asset. Derivatives include Futures, Options, CFD's or Swap. Derivatives often utilise margin or only require small deposits to gain access to larger amounts of money, since the underlying asset is not owned. For this reason, derivatives are often considered higher risk.

**Dividend** - This is the payment to shareholders from company profits usually after all other calls have been met. These can be paid by the company on a quarterly, bi-annually or annually basis and the shareholder has the decision to reinvest as scrip, or receive the cash payment.

**Dividend Cover** - Whilst understanding the potential payment of a dividend and the yield, understanding dividend cover is equally as important. The question, will this company be able to afford to pay their dividend? The dividend cover will work out how many times the profit generated will cover the dividend pay-out.

**Dividend Yield** - This is a company's annual dividend as a percentage of the current share price. Calculated by dividing the dividend per share by the current share price, this will help you to determine your level of income in relation the amount of stock under ownership.

**Discount** - This specifically refers to stock that is sold for less than its nominal or par value. Or stocks that are sold below their present market value, instances where this will arise may be issuance of new stock to existing shareholders or employees.

**Discretionary Managed** - This described the type of investor who will employ the skills and expertise of dedicated financial services professional(s) to invest on their behalf, giving full power to the portfolio manager to make investments which are tailored to the investor's needs and investment objectives. This service is often employed by investors who don't have the time, or expertise available to them to invest.

**Dove** - A term to describe (usually) a member of a central bank committee responsible for determining monetary policy, who is in favour of a less severe approach to inflation using monetary policy. A 'dove' usually advocates keeping interest rates lower or that the impact of inflation will have a low impact on society. This is the opposing term to the 'hawk' definition.

## E

**EBITDA** - This is an acronym for Earnings before Interest, Tax, Depreciation and Amortisation. This is a figure which removes some of the weakness in determining a company's profit after tax, because of this a lot of analysts and researchers prefer the EBITDA figure when performing analysis.

**Emerging Markets** - Emerging markets is a term to refer to the countries around the world which are becoming developed economies, with the inclusion of their stock markets. They are undergoing a process to see improving liquidity, market efficiency and security regulation.

**EPS** - This is an Acronym for Earnings per Share. This figure represents the amount a company earned in profits in relation to the amount of shares in circulation. As an example, should a company earn £50m profit for the year, and they have 40m shares,  $EPS = £1.25$ . This is a figure that will be monitored by analysts and shareholders to determine shareholder value.

**ETF** - This is an acronym for Exchange Traded fund. ETF's are investments funds, which are actively traded and can be bought as a share on the stock market. It enables an investor to get access to the movement of an underlying index, sector or commodity without having to own the underlying asset, but simply own a share in the ETF which closely tracks it. They aim to closely follow the performance of the asset they represent.

**Equity** - This is the value of an asset less the value of all liabilities of said asset. There is a variation of meanings specific to different asset types, we commonly refer to equity to describe a stock or any other security representing an ownership interest.

**Execution only** - This is referring to a broker who will simply place trades on behalf of the clients, offering no advice to what transaction is being made. This service is usually suited for investors who are fully confident with their own research and investing capability.

**Ex-Dividend** - If an investor is to purchase a share or bond which is on or after the ex-dividend date, the seller is entitled to the next dividend or coupon payment.

## F

**Fill or Kill** - (FOK) order is the order to buy or sell a security which must be executed immediately. It has to be filled within a short window - seconds - otherwise the order is cancelled.

**Financial Conduct Authority** - More commonly known by its acronym FCA, this is the regulatory body for all financial services in the UK. Its main aim is to protect consumers in the industry and to promote best practice and healthy competition amongst all financial services firms.

**Fixed Assets** - This is an asset which is purchased by a business with the intention of long term use. They remain illiquid as they are not bought to be converted to cash, fixed assets can include land, buildings, motor vehicles. They are usually recorded on a company's balance sheet upon acquisition and then written off, by depreciation of an asset value over the expected time period of use.

**Fixed Income** - Most commonly referred to a style of investing where the return from a security will provide a fixed rate of return at regular intervals. Bonds are usually a staple security in this style of investing, where the investor will receive a coupon.

**Fixed Interest Rate** - An interest rate which has a pre-determined time duration agreement, these agreements of fixed interest are attractive to those who foresee an interest rate rise in the near future.

**Floating Rate** - This refers to an interest rate that is able to move up or down within a certain market or index. In essence, a rate that varies in accordance to external market factors, this is in comparison to a fixed interest rate in which the interest rate will remain static through duration of agreement.

**Floating Stock** - This is the number of shares available for trading of a particular stock. The stock amount is calculated from subtracting closely-held shares and restricted stock of the firm's total outstanding shares.

**Flotation** - This is the new issuance of a security to be openly traded on the stock market.

**FTSE** - A company, which is a joint partnership between the Financial Times and London Stock Exchange, they are the leading provider of stock market indices.

**Fund Manager** - This is an employee who is typically part of a large institution, who will manage the investment of money on its behalf (a fund). It takes a strong level of educational and professional experience to manage a fund. Funds usually take the shape of (mutual, pension, trust funds)

**Fundamental Analysis** - Is the analysis of a company or a sector, starting from the bottom up. This form of analysis will dissect a company's financial statements and determine its attractiveness, often through the use of set criteria of ratios. The goal of the analysis is to draw up a forecast of future price movement.

**Funds (Investments Funds)** - This is the collection of capital which belongs to a variety of investors, used to collectively purchase securities, where each investor retains control of their segmentation of the fund.

**Futures** - A financial contract which allows the buyer to purchase (or sell) an asset, such as a physical commodity or a financial instrument, at an agreed date and price in the coming future, hence its name. The contract outlines quality and quantity of the underlying asset and has their own traded exchange. A Futures contract is a derivative financial instrument.

## G

**GDP** - This is an acronym for Gross Domestic Product. This is what is used to refer to a commonly-used economic indicator representing the strength of a country's economic activity. It is the sum of all final goods and services produced within a country, it is usually calculated on a quarterly basis and provides a clear indication as to whether a country's economic activity is increasing or decreasing.

**Gearing** - This is a word used to describe the level of debt a company has in comparison to its level of equity. Companies can use gearing as a means of multiplying gains and losses. An example being if a company has £50m debt and £75m equity it's gearing is 66%. Companies with lower gearing are generally considered lower risk, whereas highly geared companies can appear to be risky for equity investors, but can be more volatile in share price swings.

**Gilt** - Gilt, is a bond issued by the UK Government. In its history, the certification was once gilt-edged, hence where the name was derived from. These investments which are generally considered

'low risk' tend to have fixed coupons, although some may have the payments linked to the level of inflation (these are referred to by their appropriate name of 'index-linked gilts').

**Gross Margin** - Gross margin is the difference between a firm's sales and cost of sales, represented as a percentage. The higher this number is, the better it is. The higher margin represents the core activities of the business are both profitable and represents the firm has a greater level of freedom, should sales slow up.  $\text{Sales} - \text{Cost of goods sold} = \text{Gross Profit}$ .  $(\text{Gross profit} / \text{sales}) * 100 = \text{Gross Margin}$ .

**Gross Profit** - This is an accounting term and is used as a staple for certain fundamental analyses. Gross profit is the profit a company generates after the total cost of sales is taken away from the net sales income.  $\text{Revenue} - \text{Cost of goods sold} = \text{Gross Profit}$ .

**Growth** - Whilst this can be loosely defined, in the stock market growth tends to accompany a description where a particular security has increased its value. Similarly, investors can aim for 'growth' as an objective, which has a similar meaning, where their portfolio of investments grows collectively.

**Growth Stock** - This is the type of stock (or any security) which has a track record of consistent above-average growth sales and profits, which the market predicts will continue.

## H

**Half-a-bar** - A 'slang' term for £500k worth of capital.

**Hang Seng Index** - The Hang Seng is a free-float adjusted market-cap weighted stock market index, in the Hong Kong Stock Exchange (HKSE). It contains 50 constituent companies and is used as the main indicator of the overall market performance in Hong Kong, representing 58% of the total HKSE.

**Hawk** - A descriptive term, describing the mood set during a speech from a policy making body within a Central Bank. People would describe the spokesperson as being a 'hawk' or 'hawkish' if the theme is for a stricter approach to keeping inflation under control.

**Hedge** - This term refers to an investment technique (also commonly referred to as *hedging*) that will enable the investor to limit their risk due to adverse price movements in assets.

**Hedge Fund** - Hedge funds are a term to describe either a company or a particular fund pursuing a variation of strategies using a variation of assets. With a particular use of debt and derivatives to leverage their returns.

## I

**Iceberg Order** - This is a conditional request made to the broker to buy or sell a large requirement of stock, but in a smaller predetermined quantity. Usually this is done by institutions to hide the initial size of the underlying order, by masking the total size with smaller quantity orders.

**Income** - This is the term used to describe a regular inflow of money from regular income or investments. It can also be an objective for a portfolio, investors will want to receive regular payments from the money they have in their investments that pay a coupon or dividend.

**Income Tax** - This is the tax that individuals will pay on income, whether from earnings or investment rated. The rate paid is directly linked to the amount of income in question. There are tax-efficient means of investment wrappers available to an investor specifically, in the form of an ISA (see below) for example - this will reduce the susceptibility to paying income tax, due to its agreement of lower tax paid on any income.

**Index/Indices** - The latter being the plural of the first word, an index is statistical measure of change calculated by various providers of company data. An index will consist of a particular set of securities in a specific asset class (equities, bonds, commodities), for example - the MSCI Emerging Markets Index, as an example of a narrow focus, alternatively the FTSE All Share covers a much wider range.

**Inheritance Tax** - This is the tax paid by a UK resident on a UK domiciled person's death certificate. A dead person's assets are calculated and then tax is levied at a flat rate of 40% on any amount above the exemption limit. Resulting from this there are many options available to a person to reduce susceptibility to inheritance tax, but these are things that can be discussed with a financial advisor.

**Interest Rate** - This is the amount charged by a lender to a borrower for the use of an underlying asset, these are usually agreed on a per annum basis, this can be the annual percentage rate (APR). For example, a bank charging interest on a loan of £10,000, at 5% per year would be equal to the borrower being charged £500 on top of the repayment of £10,000.

**Investment Grade** - This is what a bond is typically described by when it has exceeded Standard & Poor's rating of BBB or higher. These are considered to be suitable for a wide range of investors.

**Investment Trust** - This is the term to describe an investment company with a fixed share capital which allows investors to purchase a professionally managed portfolio of investments, whilst only having to purchase the one share. These shares are openly traded on the stock market and the underlying portfolio manager can pursue a specific goal with the investment trust that an investor may not otherwise be able to pursue.

**IPO** - This is an acronym for an Initial Public Offering. This is the term used to describe the initial flotation of shares on the stock market. Usually this is done because a company would like to raise finance for growth, or for the directors to be able to 'cash in' on a business.

**ISA** - This is an acronym for Individual Savings Account. It is a tool used by savers/investors to protect their cash or investments from Income Tax and Capital Gains Tax. It is referred to as a wrapper, in which you can wrap your investments or cash in the account, choose what you wish to put in to the account be that cash or investments and it will provide the protection, making any interest earned tax free. There are limitations in place however, as they currently stand a maximum of £15,240 can be invested per tax year.

## J

**JISA** - This is an acronym for Junior Individual Savings Account. When referring back to the tax efficient means of investment in an ISA, this is a junior version meant for a child, 'junior'. These are individual savings accounts for children where any interest earned is completely tax free. The junior will then only get access to the money once they reach the age of 18 years old.

**Junk** - This is a descriptive word, when used to describe the quality of an investment asset class (typically bonds). They become marked as junk when Standard & Poor give a rating of 'BB' or



lower. They become junk because of their high likelihood of default risk, in relation to *investment grade* bonds.

## K

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## L

**Leverage** - This is a general term, similar to the UK term 'Gearing', which is used to describe a technique for multiplying gains or losses. In a company it can describe the relationship between debt and equity funding, with high-levered firms being those carrying a high level of debt compared with equity. It is also a technical term used in derivatives to describe the use of 'leverage' to gain a greater level of exposure by putting a deposit of a total amount. In both business and derivative sense it enables an investor/business to offer higher returns on investment when times are good, but leaves an investor exposed when times are bad.

**LIBOR** - This is an acronym for London Inter-Bank Offered Rate. This is a key benchmark interest rate for when one bank borrows from another, as measured in sterling. It is often used a reference point for the pricing of other financial products too.

**Limit Buy** - This is a term used to describe an order to buy a security at or below a specified price. This Buy Limit order will allow traders and investors to specify a price they are willing to pay for a security. Using this order enables the investor to buy at this specified price or less.

**Limit Sell** - Often referred the other way around 'limit sell', this is the inverse order of a 'Limit Buy', enable the owner of the stock to sell at or above the order price.

**LPOA** - This is an acronym for Limited Power of Attorney. It refers to the documentation which allows an individual or company the permission to make financial decisions on behalf of a person, with critical account functions left solely to the account holder.

**LSE** - This is an acronym for the London Stock Exchange. This is the main market for companies to list publicly in the UK and only allows certain companies to join based on strict criteria.

## M

**M&A** - This is an acronym for Mergers & Acquisitions. It is the term to describe either the acquisition of one company by another or the merger of two companies together. The main difference being an acquisition allows the acquiring buyer all the shares of a company at a mutually agreed rate. The merger is where two companies will combine, usually by offering the stockholders of one company securities in the merging company, for the surrender of their stock.

**Maintenance Margin** - This is the term used to describe the minimum amount of equity that needs to be maintained in a margin account once securities have been purchased on margin (see below), as an example - let's say a broker requires a 25% maintenance margin and you buy £30,000 worth of securities on margin, borrowing £15,000 from your broker and paying the other £15,000 yourself. Then the market value of the security drops to £21,000, then the equity in your account falls to £6,000 (£21,000 - £15,000). Assuming the 25% maintenance margin, you must have at least £5,250

(25% of £21,000). Should the market value fall further and you break below the £5,250 required, your broker will issue you with a margin call (as below).

**Margin** - This is the term to describe borrowed money used to purchase securities, you 'buy on margin' when you don't put the full amount down to purchase a security, but you put a deposit of the total amount required. Traders use margin to gain greater exposure to securities they may not usually want to allocate so much capital towards. This will increase your exposure to risk and trading 'on margin' is considered high risk, as any potential to magnify rewards can also magnify losses.

**Margin Call** - A broker's demand on an investor using margin to deposit more capital or securities so that the account's margin level is brought up to the minimum required for 'maintenance margin'.

**Market Maker** - A market maker is a professional trader, who often work for banks. They commit to providing liquidity in securities so that other investors and traders can buy or sell them. Their requirement to trade carries risk - as they could land themselves with large amounts of stock which is seeing very low volume, proving difficult to shift - this is reflective through the spread.

**Market Order** - This is an order instructed to buy or sell a security at the best price available during that immediate market value.

**Mid-Cap** - This is a term which describes the 'next size up' company from small-cap, that aren't quite large enough in market capitalisation to be considered large. They are still big companies which can be actively traded. A usual market capitalisation range from £100m to £3bn, the FTSE 250 will accommodate a large quantity of these stocks.

**Money Laundering** - This is the action done by a criminal where they try to convert crime money in to other legitimate assets, such as funds - this is to prevent attraction from regulators or authorities. The money invested in to legitimate assets when money laundering is usually from a profitable crime so the criminal will accept small losses on the money so as to ensure the appearance of the money is from 'clean' means of investment.

**Moving Average** - This is a means of assessing live price trends, it can be one of the fundamental components of technical analysis and its main function is to help to clarify the overall trend of a security, by removing the appearance of short term volatility which can skew ones perception of trend. The formula behind the Moving Average is to first decide on the number of data sets to be calculated, let's say we want to analyse the price over a period of 5 days. The Moving Average will divide the price of the 5 days price and that will determine the moving average value (£1.50, £1.70, £1.80, £2.00, £2.10/5 days = £1.82) once the sixth day arrives the formula will calculate from the prior 5 days, on the sixth day price spikes to £3, so as an idea: (£1.70, £1.80, £2.00, £2.10, £3.00/5 = £2.12) - this shorter period moving average is not so relevant for longer term investors, they would be more interested in the 90 or 200 day moving average. However, the moving average can be specific to any time period, so whilst we use the example of a daily chart, the 200-EMA on a 5 minute chart as an example, would wield slightly different means of trend analysis than the reading on the daily.

**Mutual Fund** - This is the U.S. equivalent of Unit Trusts and Open-ended Investment companies.

## N

**NASDAQ** - Its historic state shows that this reference stands for: 'National Association of Securities Dealers Automated Quotations.' The NASDAQ is an electronically based stock market in the U.S.

and has a considerably heavy bias towards its members being info-tech or bio-tech companies. The largest company by market cap Apple is a member of the NASDAQ.

**NAV** - This is an acronym for Net Asset Value. It is worked out by subtracting the total value of a company's balance sheet liabilities, from its assets. The NAV is a staple part of an analyst's research, by calculating the NAV per share. This is done by dividing the NAV by the total number of shares in issue. This calculation is also very common in investment trust research.

**Nominee** - This refers to a person or a firm whose name holds securities or other properties are transferred into, in order to facilitate transactions whilst leaving the client as the actual owner. This enables a broker to cut down on administration, as each transaction can be aggregated and recorded as one. Individuals can still request their holdings to be recorded separately however.

**New Issue** - This is where a security is introduced to the market for the first time and made available for public trading. It is usually used with shares, but can also be used by other asset classes.

**Nikkei 225** - This is the most popular used index for the Tokyo Stock Exchange. Its name derives from the paper which calculates the index, the *Nihon Keizai Shimbun*. It is a price-weighted index with yearly reviews and is made up of 225 of Tokyo's largest companies.

**NYSE** - This is an acronym for the largest stock exchange in the world, the New York Stock Exchange. With \$19.69 Trillion in market capitalisation of its listed companies in May 2015, it far surpasses any other exchange.

## O

**Offer Price** - The second type of pricing available to choose when making a security transaction, the offer price is the price that you pay in order to buy the security. The difference between the offer and the *Bid Price* is called the spread. So if the spread is 100 and 110, the offer price would be 110 and the broker would receive the difference of the 10p.

**Open Ended Fund** - This refers to a collective investment scheme which has no capped level of shares available in purchase. If demand is great, more shares will be produced to accommodate for the demand, when demand decreases, the fund manager will buy back the shares. An example of an open ended fund is a Unit Trust or Open-ended investment company.

**Options** - This type of investment product enables the holder the right, but not the obligation, to buy (call option) or sell (put option) an asset or security at a fixed price in the future. This investment product is a derivative by its nature and consequently can be considered high risk.

**Order Book** - This is an execution book which holds a list of all the buy or sell orders required. The book gives priority to the best prices and the order with the highest buy price or the lowest sell price usually feature at the top.

**OTC** - This is an acronym for over the counter. This is a term referring to the sale of a security directly from the seller and the purchaser, rather than through the stock market.

## P

**PBT** - An acronym for Profit before Tax. PBT is a profitability measure that looks at what profit has been generated before any corporate taxation is carried out.

**PE Ratio** - The PE ratio stands for Price to Earnings ratio, in short it is used as a quick comparative to assess whether the share is cheap or expensive. The ratio compares one year's share price to one year of company's earnings. The higher the share price is currently in relation to a year's earnings per share, the more expensive the firm. This would be seen as forcing investors to wait a long time to recoup their investment in earnings terms.

**Pension** - A pension is the income you will generate from savings, once you retire. The types spread across state pensions, company pensions and personal pensions.

**Pip** - An acronym for Price Interest Point. A pip is most commonly used in Foreign Exchange, a pip is a unit of measure equivalent to a change in value between two currencies. It is a very small measure of change in the two pairs and will equate to one pip being 0.0001, a movement of 0.0002 is two pips and so on.

**Power of Attorney** - This is a documentation to allow someone else to make decisions on your behalf (your attorney), when providing the 'power of attorney' in an investment sense, you will allow somebody to make investment decisions in the case that you become mentally incapacitated or no longer wish to make any critical decisions yourself.

**Private Equity** - This term refers to private investment. It is a source of investment capital from HNW for the purpose of acquiring equity ownership in companies. It is not listed on a public exchange and the investments are made directly in to the private companies.

**Private Placing** - This is a round of funding of securities which are listed but not through a public offering, but the listing or placing, is private. Investors usually take the shape of large banks, mutual funds, insurance companies and pension funds. To understand, it is the direct opposite of a public placement, where securities are openly available to the entire public.

**Profit and Loss Statement** - This is a financial statement that summarises the revenue that a firm has generated over a year less the costs. The bottom line will indicate whether there has been a profit or a loss made based upon the costs incurred.

## Q

**QE** - An acronym for Quantitative Easing, this is the term which described the process of Central Banks creating money electronically to purchase government securities, particularly bonds, this is to stimulate the economy through more money being readily available. Where the money ends up will vary, however the idea is to enable the government to provide loans for businesses and individuals.

**Quantitative Analysis** - This is a research format which requires the sole use of data and statistics to develop conclusions. Quantitative analysis is usually carried out on economies and companies.

## R

**RDR** - This is an acronym for Retail Distribution Review. This is a regulation set up in 2012 by the Financial Conduct Authority to improve the standard of financial services being offered to the public. The RDR has a multitude of objectives, some of which including heightened clarity for them on products and services, to enhance a market that allows the customers of a financial firms needs and wants addressed. As well as ensuring that the remuneration agreements allow for a much more competitive market, are in the favour of consumers.

**Recession** - This is the term which is used to describe a breakdown in economic activity for a country. Technically speaking - a recession is in place when two consecutive quarters have negative growth rates.

**REIT** - An acronym that stands for Real Estate Investment Trust. This is the most common international investment platform for investing in to real estate, outside of actually purchasing property. A REIT is a company that will own or finance income-producing real estate, which will allow investors of all types regular income streams and a means of diversification. The company trades on the on major exchanges and is easily movable like equity stock.

**Research Analyst** - These are professional researchers who are paid to provide coverage and report their opinions on whatever criteria their analysis requires. The research analyst's work will enable them to help a client to decide what investment action they should take, or the analyst can help formulate strategies amongst institutions.

**Retail Price Index** - Usually shortened in to the acronym RPI, this is an old UK inflation measure. It is the means of looking at change in the price of a basket of goods, consumed by a typical household. The measure includes property costs such as council tax and also includes average mortgage payments alongside everyday costs such as food, petrol and utilities.

**Rights Issue** - In short, this is where an existing public company issues more shares in an attempt to raise finance from its shareholders.

**ROI** - This is an acronym for Return on Investment. This is a performance measure used to determine the efficiency of the amount of capital invested relative to the investment's return. The ratio is defined as  $\text{gain from the investment} - \text{cost of investments} / \text{cost of investment}$ . The results is then expressed as a percentage or ratio.

## S

**Scrip Issue** - This is the term to describe the issuance of additional shares to shareholders in accordance to the shares already held. It is usually done by a company's cash reserves or dividend payments converting to share issuance in its place.

**Share** - As an obvious understanding, it is a 'shared' unit of ownership of a company. As a shareholder the owner can receive dividend and it gives them a right to vote at Annual General Meeting.

**Short Sell (shorting)** - This is the act of attempting to benefit from a fall in an asset's price. Assets are sold that are borrowed from a third party, the sale is then completed by buying them back at a later date, to return them to the lender. A stock is sold in the hope the price will fall before returned to the original owner.

**SIPP** - This is an acronym for Self-Invested Personal Pension. This is a private pension type and is created solely for the account-holder, through the use of various asset-class investments. One of the main advantages of a SIPP is that the choice of investments you can hold within them is large as you can purchase from the full range of HM Revenue and Customs approved investments and they can be ran in conjunction with other pension schemes.

**Small Cap** - Another reference to market capitalisation of a company. This is the smaller end of the scale, with the size of the companies in this bracket stemming from £1m to £100m. Then, prior to this is the micro-cap which can have a market capitalisation of £1m.

**Spoofing** - This term refers to a type of scam where a criminal will attempt to gain unauthorised access to a user's system or information by pretending to be the user. Creating a 'spoof', the criminal will attempt to trick the user into releasing strictly confidential and sensitive information.

**Spread** - Whilst this word has numerous different meanings, the most common reference to the stock market is the difference between the bid and the ask price of a security.

**Stamp Duty** - This is an obligatory tax paid on the purchase and registration of securities. Two of the most common types of asset where stamp duty is required is property and shares. The rate tends to remain static on shares at around 0.5% without deviating too far from that, whereas stamp duty for property can vary between 0% - 12% depending on the value of the property being purchased.

**Standard Deviation** - A mathematical formula used to calculate how sporadic or dispersed a set of numbers are. The formula is taken from the square root of the variance.

**Stop Loss** - This is an order type to sell a security or commodity at a specified price, in order to limit the possibility of a loss.

## T

**T+1, T+2, T+3, T+10, T+20** - This symbol refers to one of the two most important dates when buying or selling a stock; the transaction date and the settlement date. These abbreviations refer to the latter of the two and mark the settlement date. The formula being the transaction date (T) + one day (1 or corresponding number). The settlement date refers to the day in which ownership is transferred to the buyer or taken from the seller.

**Technical Analysis** - Arguably one of the more popular means of analysis in recent times, stemming from a long history of technique development. Technical analysis refers to evaluating a securities positioning in the market by analysis patterns in the price history from the past, or formulating an investment strategy from trends in the way the price has moved in the past. To accompany the analysis, indicators and formulae are applied to construct part of a strategy or as a stand-alone means of commenting on the markets.

**Trend** - This is a term to describe the general movement of the market when referring to securities. Technical analysts can use trend to determine what their purchase behaviour will be, as well as a key indicator towards where the price might head.

## U

**U.S. Federal Reserve** - This refers to the central bank of the U.S., stemming back to its establishment in 1913, the FED for short, ensures a robust monetary and financial system, promotes healthy levels of employment and seeks low inflation.

**U.S. Treasury** - This refers to bonds issues by the U.S. Government.

**Unit Trust** - An investment company, set up to manage a portfolio of stock exchanged securities, in which investor can purchase 'units'. Assets are held in the trust and profits are then passed on to unit holders, where the investor in the unit is a beneficiary under the trust. In the UK, the term Unit Trust is synonymous to Mutual Fund.

**Upgrade** - This term when used in the context of securities refers to a positive change in the rating of a security. Catalysts for a rating change such as an upgrade can come from improvements in the financials of a business or a more positive outlook from the financials of the security,

## V

**Venture Capital** - This term refers to start-up capital or equity capital which is given by private investors or certain companies (venture capital businesses), it is used for funding for a new or growing business.

**Venture Capitalist** - Derived from the term 'venture capital', a venture capitalist is the private investor that invests the money in the start-up. The usual exchange for the money is around a 50% or more ownership of the business and whilst there are a variety of reasons for investment, their objectives are usually to bring the business to public offering level (IPO).

**Vix** - The symbol for the Chicago Board Options Exchange Volatility Index - Vix - shows the volatility expectancy (implied) over a 30-day period. It is generated through the collective level of volatility across a large range of options across the S&P500.

**Volatility** - This is the measure used to determine the fluctuation in an individual security, asset class or market. The best known measure of this volatility is the VIX which was described above - it also has the nickname 'fear index'.

## W

## X

**XD Date** - This is the term describing the date that a buyer of a security forgoes the next dividend or coupon, where the seller receives the payment instead.

## Y

**Yield** - This is a measure of return, it could be the dividend income from an asset - as a percentage of the assets value, or the interest received as a percentage.

## Z