Glossary of Investment and Financial Terms

Expert knowledge means success

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Introduction

We have compiled this glossary of terms to assist you to understand the "jargon" which is used in business and investment. This glossary is limited to Investment and Financial Terms but we publish several other glossaries as well – check our website or call us for details.

Investment and Financial Terms

- The Association of British Insurers (ABI) - this is the trade association to which most UK insurance companies belong. One of its functions is to monitor quality and decide common areas of interest so that minimum standards of customer service can be maintained.
- ACC Accumulation Units - a unit type designed for growth. Income is used to raise the value of units rather than purchasing new units.
- Account Managers – management companies which deal with the administration of investment holdings. In the past this role would normally be the responsibility of the same company that ran the fund.
- Active Investment Management - the management of an investment portfolio that involves active trading of securities in an attempt to produce above-average returns on a risk-adjusted basis. Active management is predicated on the belief that it is possible to beat the market averages consistently.
- Actuary - Actuaries are professional people employed, usually, by insurance companies because they have special skills in calculating insurance rates by reference to the mathematical laws of probability to measure potential risks. In England, these people are members of the Institute of Actuaries, in Scotland of the Faculty of Actuaries.
- Additional voluntary contributions (AVCs) - these are extra amounts of money which you may choose to save in order to enhance the pension you will receive on retirement.
- Affinity Card - Affinity cards are credit cards linked to a particular cause, which may or may not be charitable. Some charities offer credit cards (the schemes are run by card issuers on the charities' behalf) that make small percentage payments towards charity funds each time you use the card.
- Allocation rate - this is the percentage of your investment payment that is actually invested (e.g. 75%) after initial charges have been taken into account.
- Allonge – derived from the French word *allonger*, which means to draw out, an allonge is a sheet of paper attached to a bill of exchange for the purpose of documenting endorsements. The need for an allonge arises as a result of a lack of space on the bill itself. For example, as a bill of exchange is transferable through endorsement, it may be exchanged among so many parties that these parties don't all fit on the bill. In this case, a separate piece of paper (the allonge) is attached to the bill, acting as a legal extension of the document. An allonge is more usually used in those countries where the Code Napoléon is in force, as that code requires every endorsement to express the consideration. Under English law, as the simple signature of the endorser on the bill, without additional words, is sufficient to operate as a negotiation, an allonge is seldom necessary. With the decline in the use of bills of exchange, it is now rarely needed.
- Alpha (and Alpha Coefficient) - a mathematical estimate of the amount of return expected from the inherent values of an investment. It measures the portion of an investment's return from specific (non-market) risk. It is the difference between an asset's actual performance over a specified period of time and the performance that might have been expected using its volatility relative to "the market" (the beta coefficient). It measures risk-adjusted performance, factoring in the risk due to the specific security, rather than the overall market. A high value for alpha implies that the asset has performed better than would have been expected given its beta (volatility).
- Alternative Investment Market (AIM) - this is an official Stock Exchange market for investors seeking investment opportunities in smaller, and usually, higher risk entities.
- Annual Equivalent Rate (AER) - this is a notional rate that is generally quoted on interest paid on savings and investments. It is intended to demonstrate what your interest return would be if the interest was compounded and paid annually instead of monthly (or any other period). The gross AER is the contractual rate of interest payable before the deduction of income tax. Net AER is the amount of interest payable after allowing for the deduction of basic rate tax.

- Annual General Meeting (AGM) - this is the annual shareholder meeting. All companies, except those with an elective resolution in place, are required by law to hold this meeting. This meeting is normally held 21 days after publication of the annual report. It must be held within 18 months of the previous AGM. The accounts are presented and various resolutions are put forward at these meetings.
- APCIMS (Association of Private Client Stockbrokers and Investment Managers) - the official body of Stockbrokers and fund managers specialising in the provision of investment services for private clients.
- AITC (Association of Investment Trust Companies) - the AITC is the trade body for investment trust companies.
- Annuity - this usually refers to an insurance related investment product that guarantees or aims to pay a stated amount to the holder every year. The payments may be at a fixed interest rate (Fixed Annuity) or a variable rate (Variable Annuity). The insurance annuity usually offers tax deferral benefits as well.
- Arbitrage - buying securities in one country, currency or market, and selling in another simultaneously to take advantage of price differences.
- Association of Residential Lettings Agents (ARLA) - ARLA was formed in 1981 as the professional and regulatory body for letting agents in the UK.
- Authorised person - a firm or person authorised under the Financial Services and Markets Act to carry on investment business.
- Backwardation - a futures market term: the situation in which, and the amount by which, the price of a commodity for future delivery is lower than the spot price or a far future delivery price lower than a nearer future delivery. One says that the forward curve is "in backwardation" (or sometimes: "backwardated"). Backwardation is a situation where the cash price of a commodity is pregnant with a premium a buyer is willing to pay for the immediate delivery of the commodity. Formally, backwardation means a downward sloping forward curve (as in an inverted yield curve). A backwardation starts when the difference between the future price and the cash price is less than the cost of carry. The opposite market condition to backwardation is known as *contango*.
- Base Rate - the base interest rate determined usually by a country's central bank (such as the Bank of England) upon which all other lending or savings interest rates are based.
- Basel Accord (or Basel Capital Accord) – the agreement adopted by the Basel Committee on Banking Supervision in 1988, and amended in 1996. It is an internationally (among the G-10 central banks) agreed set of supervisory regulations governing the capital adequacy of international banks. Capital is measured in relation to the perceived credit and market risk of the assets owned by the banks. The standards are almost entirely addressed to credit risk, the main risk incurred by banks.
- Bear - this is an investor who is negative towards shares, believing prices will fall. A Bear market is one where share prices across the entire market are generally, and consistently, falling.
- Bearer Security - this is a bond or a share for which there is no other proof of ownership other than the physical possession of the security. Since no official record or register of ownership is kept, the owner is the "bearer" of the share or bond certificate and they are easily traded without formality.
- Bell Curve - This is statistically a large and random sample when measured will produce a bell curve on a bar chart where the scale measurement is along the x-axis and the total occurrences within the sample up the y-axis.
- Benchmarking - the analysis of selected activities and processes, and their comparison with similar analyses for other organisations.
- Beneficial Owner - in stockmarket usage as a result of the growing importance of nominee accounts, it is a term used to identify the actual owner of an asset although the asset may not be recorded in their name.
- Beta (or Beta Coefficient) – this is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. The Beta Coefficient is a concept taken from the popular Capital Asset Pricing Model that describes an individual asset's risk as compared to the overall market. It measures how much the particular asset moves in relation to a broader index. A beta of 1.0 indicates that an asset closely follows the market. A beta greater than 1.0 indicates greater volatility than the market. Those below 1 tell us that the security moves less than the overall market index. The Financial Times all-share index or the Dow-Jones index are usually taken as proxy measurements for general market movements.
- Bid Price - the price the market maker will pay you for your shares when you sell. The opposite of Offer Price (the price you have to pay if you want to buy shares).

- Bid Offer Spread - this is the difference between the bid price (at which you can sell shares) and the offer price (at which you can buy shares). Many unit trusts also have a bid-offer spread and effectively this amounts to an extra exit charge when the investor sells.
- Boiler Rooms – these are offices, often overseas, set up to sell shares to UK investors. They are not authorised by the FSA and act illegally by selling and promoting the sale of shares in the UK. The shares are often sold by telemarketing by stock brokerage firms operating out of inexpensive, low-rent offices (hence the term "boiler room") and use high-pressure sales tactics to sell shares that are unsuitable, over priced, extremely risky and possibly even non-existent.
- British Insurance Brokers' Association (BIBA) - BIBA is the UK's leading independent insurance body representing insurance brokers, intermediaries and consumers.
- Blue Chip - a term used to define the shares of a company regarded as being a solid, and consequently safe, investment. The company will almost certainly be large, well established and profitable, but be conservatively managed.
- Bonds - a bond is simply an IOU. It is an agreement under which a sum is repaid to an investor after an agreed period of time. A bond can be issued by anyone but is, generally, a certificate issued by governments and companies as a means of raising capital which generally entitle the holder to a fixed-rate of interest during their life and repayment of the amount of the bond at maturity.
- Bonus issue - the issue by a company of new shares which do not require any payment to be made by the shareholder. This has the effect of making the company's shares more marketable because of the increased number available and the lower market price.
- Building Societies Association (BSA) - this is the trade Association representing interests of building societies who are members of it.
- Bull - this is an investor who is positive towards shares, believing prices will rise. A Bull market is one where share prices across the entire market are generally, and consistently, rising.
- Bundesbank - this is the German central bank which was set up in 1957 and given full independence to set interest rates.
- Call - this is the demand by a company or any other issuer of shares for payment. It may be the demand for full payment on the due date, such as, for example, with a rights issue. The calls are usually made several months apart by call letter and the shares are said to be paid-up when the shares are fully paid.
- Call Option - this is the right, but not the obligation, to purchase shares at a specified price on a specified future date.
- Call (covered warrant) - a warrant that gives the holder the right, but not the obligation, to buy the underlying at a future date and specified price.
- Call (warrant) - a call warrant allows the holder to benefit from a rising market. It rises in value when the underlying asset rises in value.
- Cap and Collar Rate - a mortgage which guarantees the interest rate charged will remain sandwiched between two specified levels.
- Capital Assets Pricing Model (CAPM) – this is an economic model for valuing stocks and securities as well as derivatives (see Derivatives Market) by relating risk and expected return. The model says that the expected return investors would demand is equal to the rate on a risk free security plus a risk premium. The model is used in finance to determine a theoretically appropriate required rate of return (and thus the price if expected cash flows can be estimated) of an asset, if that asset is to be added to an already well-diversified portfolio, given that asset's non-diversifiable risk. The CAPM formula takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk), in a number often referred to as beta (β) in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset.
- Capital Fulcrum Point (CFP) - the CFP measures the annual percentage growth rate required from the underlying instrument to do equally well in terms of capital appreciation from its associated warrant.
- Capitalisation - money from a company's reserves is converted into issued capital, which is then distributed to shareholders as additional shares in place of a cash dividend. This is also known as a Scrip Issue.
- Capital Ratios – the use of capital ratios is a valuable tool for assessing the safety and soundness of banks. The regulatory framework for determining bank capital adequacy is under review by the Basel Committee on Banking Supervision (see Basel Accord).
- Carpetbagger - someone who becomes an account holder with a building society or other mutual in the

hope that they will benefit from a windfall handout when the building society demutualises (turns itself into a public company).

- Carry Trade - a speculation strategy involving borrowing at one interest rate, then investing the acquired funds into a different asset that generates a higher interest rate yield.
- Cash Market - this is a term used on futures markets to describe the underlying currency market or stockmarket in which deals are carried out in the currencies or shares to which the futures contracts relate. Also known as the Spot Market.
- Cash Settled Warrants - these are warrants which are not exercised in exchange for a physical asset, but for a cash amount equal to their intrinsic value.
- CAT - CAT stands for Charges, Access and Terms. CAT standards are designed to identify savings products that are simple, clear and fair, so that savers will feel confident about choosing them. However, it doesn't mean they're suitable for all savers. Nor does it guarantee performance.
- Caveat Emptor - this is Latin for 'let the buyer beware'. It implies a buyer must ensure that goods about to be purchased are free from defects and that he/she bears the risk. It is particularly relevant in property transactions, where the seller is legally obliged not to mislead the buyer, but other than that the onus is on the buyer to satisfy himself that the property is in the condition he wants.
- Chapter 11 - the term for corporate bankruptcy protection in the US, similar to company voluntary arrangements (CVAs) in the UK. It postpones a company's obligations to its creditors, giving it time to reorganise its debts or sell parts of the business.
- Chartered Insurance Institute (CII) - the body controlling professional standards (educational, ethical etc) in the insurance industry.
- Chinese Wall - an internal 'wall' between two departments of a bank or other financial institution which is meant to ensure that conflicts of interest do not arise. For instance, a bank might have a corporate finance department which advises on takeovers and mergers, and a fund management division which invests client money in shares. If the fund managers were to hear in the canteen about an impending deal, that would be insider dealing. Chinese walls, 'enforced by a bank's compliance department, are meant to ensure that the corporate financiers don't talk to the fund managers about their work.
- Closed-End Fund - these funds have a fixed number of shares, which are listed on the London Stock Exchange (LSE). The market price of the shares is determined by demand and supply factors. Investment trusts are closed-end funds.
- Closed Period - The two months before a company announces its results in which directors are prohibited from dealings in its shares.
- CoCo Bonds (also known as Contingent Convertible Bonds) – these are bonds which are only convertible into stock if the share price achieves a specified level.
- Collar (also called a fence) - a protective options strategy in which a written call and a long put are taken against a previously owned long stock position. The options may have the same strike price or different strike prices and the expiration months may or may not be the same.
- Collateralised Debt Obligations (CDOs) - A collateralised debt obligation is a financial structure that groups together individual loans, bonds or assets in a portfolio, which can then be traded. In theory, CDOs attract a stronger credit rating than individual assets due to the risk being more diversified. But, as the performance of some assets has fallen, the value of many CDOs have also been reduced.
- Collective Investment - a collective investment is a pooled fund, which gives a professional fund manager control of the investments on behalf of private investors. Collective investments include products such as Unit Trusts, Investment Trusts and Open Ended Investment Company (OEIC) and most are usually geographical or thematical such as UK Smaller Companies or American Equity.
- Consolidations – this occurs when a company reduces the number of shares it has in circulation by consolidating its share capita; for example, shareholders would receive 2, 50p shares for every 1, £1 share held.
- Consols – these are British bonds that have no specified maturity date and pay a coupon for ever.
- Contagion (or to be more precise, Financial Contagion) – this is the transmission of economic shocks from one country to others, through trade or other economic connections. Financial interdependence can transmit a crisis from one country to another, for example if countries borrow from the same creditors. Faced with a crisis in one country, banks and other lenders may lose their nerve and start recalling loans made to borrowers in the region, creating a credit crunch - a shortage of

cash - in debtor countries. Contagion can take place both during "good" times and "bad" times and does not need to be related to crises. However, contagion tends to be emphasised only during times of crisis times.

- Contango - a term used in the futures market to describe an upward sloping forward curve (as in the normal yield curve). One says that such a forward curve is "in contango" (or sometimes "contangoed"). It is the situation where, and the amount by which, the price of a commodity for future delivery is higher than the spot price, or a far future delivery price higher than a nearer future delivery. For stocks and shares, Contango is the carry-over of the settlement of an account on a stock exchange to a future period. Such postponement requires payment of interest on the amount carried over. The opposite market condition to contango is known as Backwardation.
- Contract For Difference - a contract designed to make a profit or avoid a loss by reference to movements in the price of an underlying item. The underlying item is not bought or sold itself. Similar to spread betting. Increasingly popular as an alternative to actual share trading as it allows margin deposit trading and legally avoids stamp duties or similar taxes. Typically, a quoted CFD price will track the underlying share price quite closely.
- Convertible Bond - these bonds can be converted into a specified number of shares of the issuing company at a pre-determined price.
- Convertible Preference Shares - these shares can be converted into ordinary shares at a given price at a future date.
- Correlation – this is more an economic function rather than an investment one. Two random variables are said to be positively correlated if high values of one are likely to be associated with high values of the other. They are negatively correlated if high values of one are likely to be associated with low values of the other. A number of different coefficients are used for different situations - the best known correlation coefficient is the *Pearson product-moment correlation coefficient*, which is obtained by dividing the covariance of the two variables by the product of their standard deviations.
- Corporate Governance - the term used, following recent Government sponsored reports, to describe the policies and procedures that the company's directors' employ in their conduct of the company's affairs, and their relationships with shareholders to whom they are responsible as managers of the shareholders interests in the company, and of its assets.
- Co-operative - a business owned and operated by its members.
- Covered Bonds – these are senior debt instruments secured by a cover pool of mortgage loans (property as collateral) or public-sector debt to which investors have a preferential claim in the event of default. Covered bonds have a higher risk weighting than mortgage-backed securities because the holder is exposed not only to the non-repayment of the mortgages but also to the financial health of the issuer.
- Covered Warrants – these are a recent addition to the range of stock market related investments that an investor can buy. These products provide the ability to make a profit from a fall in the value of a company's shares, as well as a rise. They provide investors with the opportunity to gain exposure to other instruments that are not normally available on the stock market. Covered warrants, which can be bought for as little as £50, do this by giving you the right, but not the obligation, to buy or sell a share at a specific price and at a specific time. You could, for example, take the view that a company's share was going to fall in price over the next six months and make money if they did. This is known as 'shorting' a share. You are free to sell the warrants you have bought at any time through a stockbroker, just like ordinary shares. Covered warrants, which are issued by investment banks, can be used as an insurance policy as well as for betting on share price falls. If, for example, you hold ordinary shares in a company you are hoping the shares will go up in value. But you could hedge your bets by buying a warrant that would pay out if its share price fell. You can also use them to take bigger bets on the market. When you buy shares in a company, the amount you gain is limited to the rise in the share price: if it rises by 20%, you make 20%. But if, for example, you believe a share is set to bounce, you could buy a covered warrant that gives you ten times its gain. So, if the share were to rise 20%, your investment would rise 200%.
- Coupon - a regular payment received by the bondholder over the lifetime of the bond. The coupon rate is expressed as a percentage of the face value of the bond.
- Creative Accounting - the term used to indicate accounting and financial reporting practices which, whilst not illegal, are intended to convey a circumstance or position that is either misleading or illusory, creating a position of profitability or soundness that may not be totally valid.

- Credit Crunch - the situation created when banks hugely reduced their lending to each other because they were uncertain about how much money each of them had. This in turn resulted in more expensive loans and mortgages for ordinary people.
- Credit Default Swap – this is a specific kind of counterparty agreement allowing the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange of regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. Unlike insurance, however, CDSs are unregulated. This means that, when the bond defaults, there is no regulator to make sure the seller of the CDS actually has the money to pay the holder.
- Credit Event – an event under a credit derivative agreement that leaves an obligor unable to fulfil its financial obligations. Particularly in credit derivatives transactions, these events are carefully specified and will usually arise from: failure to pay, insolvency, cross-default, restructuring, repudiation, merger and downgrade. A credit event is effectively an insurance to cover a third party default.
- Credit Spreads - this is the difference between the yields on riskier bonds and on safer Government securities (Gilt-Edged Securities or Gilts). Gilts offer a low rate of return as the risk of default is almost negligible whereas companies that borrow by issuing bonds have to offer a higher yield due to the potentially higher risk of default. The difference between the corporate bond rate and the rate on a government bond is known as the "spread".
- CREST - CREST is the UK's electronic (paperless) registration and settlement system for equity share trading. In other words it is the book entry transfer system for UK and Irish registered equity and corporate stocks.
- Cum - when appended to the share price, this means "including". Thus a share price quoted cum dividend (or cum div.), means that you will receive the next, and announced, dividend if you buy the shares.
- Cumulative Preference Shares - these preference shares accumulate unpaid dividend, which is then paid out when the company next declares it or is able to pay Dividends.
- Currency Peg - A commitment by a government to maintain its currency at a fixed value in relation to another currency. Typically this is done by the government buying its own currency to force the value up, or selling its own currency to lower the value. An example of a peg was the fixing of the exchange rate of the Chinese Yuan against the US Dollar.
- Cyclical Stocks – these are stocks the market performance of which is heavily influenced by changes in economic activity. Their price will rise when the economy turns up, and will fall when the economy turns down. Examples are (a) house builders which have done well in the 10 years from 1997 with low interest rates and high demand for houses. Non-cyclical stocks (also called "counter cyclical or defensive stocks"), such as stocks within the food and hospital industries, are not directly affected by economic changes.
- Dark Pools of Liquidity (also Dark Pools or Dark Liquidity) – these are electronic "crossing networks" that provide liquidity that is not displayed on order books. They offer institutional investors and larger hedge funds many of the same benefits associated with making trades on the stock exchanges' public limit order books - without tipping their hands to others, meaning publicly quoted prices aren't affected. Dark pools range from completely opaque to semi-transparent and their order flow can range from transient to stationary. Opaqueness impacts fairness, as the more-transparent the liquidity pool, the easier it is to be manipulated. More-transparent crossing networks (such as Liquidnet Inc., Pipeline, or the SIGMA X unit of Goldman Sachs) solve this problem by not letting brokers or more-active traders onto the platform and by policing their community and evicting poachers. Other crossing engines with some transparency, such as Pipeline or Posit, give away such limited information that is difficult to use. These "pools" are growing rapidly, both in number and in volume of trades and account for around 12% of all US stock trades (Source: August 2008, Tabb Group).
- Day Trader - a US Term. Day traders are in and out of the market many times during the course of one trading session and may not even hold a position in any securities overnight. This approach tends to generate a lot of expenses in the form of commissions and denies the day trader the ability to

participate in the long-term creation of wealth through compounding which is possible if you own the shares of a quality business.

- DAX - German Stock Exchange Index.
- Dead Cat Bounce - a phrase long used on trading floors to describe a short-lived recovery of share prices in a falling stock market.
- Debt for Equity Swap – this is a way in which a company can swap some of the money it owes to a bank or other creditor in exchange for shares and, in doing this, the debt is reduced accordingly. There are many possible reasons why a company would wish to restructure its finances – such as the need to meet certain contractual obligations (for example) maintaining a debt/equity ratio below a certain number. A debt for equity swap can help a company that is in financial trouble by cancelling some of its outstanding debt.
- Deferred Ordinary Shares - these are shares that rank below preferred ordinary shares for dividends.
- Dematerialisation - traditionally the evidence of financial security ownership is by written statements on paper (e.g. share certificates). Increasingly such information is being placed on electronic records (called dematerialisation) and paper evidence is being abandoned.
- Demutualisation - the process by which building societies and mutual insurers convert themselves from mutual organisations (owned by their members/customers) to profit-making companies with share capital and which distribute profits to their shareholders.
- Depository Receipts - these are certificates, representing evidence of ownership of a company's shares held by a depository. They can be bought and sold. American Depository Receipt (ADR) is a document giving the owner rights to UK shares which have been lodged in a US Depository. They are effectively bearer documents. They are issued by US banks to give American investors access to UK shares. (see also Global Depositary Receipts (GDRs) and European Depositary Receipts (EDRs))
- Depression - a depression is a sustained, long-term downturn in economic activity in one or more economies. It is a more severe downturn in the economy than a recession, which is seen as part of a normal business cycle. The word "depression" is often used to refer to the worldwide economic depression from the late 1920s through the 1930s. In the United States, it began with the stock market crash in October, 1929.
- Derivative Market - the Market on which futures, such as derivatives are sold. Sales are made on the basis of a guaranteed future sale at a current price, which is known as the "underlying". The terms "contracts" or "products" are often applied to denote the traded instrument.
- Discounted Cash Flow - a way of estimating the value of an investment in today's money by adjusting future returns to get their present value.
- Discount Rate – the rate used for adjusting the total present value of future income from an investment, projected over a given period of time after taking into account the declining value of money.
- Div per share - dividends are regarded as a crucial investment measure. It is the declared net dividend per share payable to registered shareholders for the financial period. This is the income a shareholder receives on each share invested in the company.
- Dividends - the sum paid by the company to its shareholders as their direct financial reward from holding the company's shares. It is the income received from an investment in the company's shares. A company can choose to pay a dividend from reserves following a loss-making year, and conversely a company can choose to pay no dividend after a profit-making year, depending on what is believed to be in the best interests of the company. However, a company cannot make dividend payments except out of distributable reserves.
- Dividend cover - the indicator as to the rate that the company may be paying its dividends out of its earnings, and its ability to continue to pay dividends at that rate.
- Dow Jones - a US index which is the oldest and most widely used measure of the overall condition of the stock market. Each of the four averages is price-weighted and includes a few dozen widely held stocks. There are four Dow Jones Averages: Industrial, Transportation, Utilities, and Composite (the other three together).
- "**Earnings before...**" - There are several 'Earnings Before..' ratios such as: EBT = Earnings Before Taxes; EBIT = Earnings Before Interest and Taxes; EBIAT = Earnings Before Interest after Taxes; EBITD = Earnings Before Interest, Taxes and Depreciation; and EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortisation.
- Earnings Per Share (EPS) - the relationship of the profit, after tax, attributable to each share in issue. It is the key component of company performance featured in the price

earnings ratio (P/E ratio or PER). The main subject of broker research on future corporate performance and a key factor in arriving at share and corporate value. "This value is displayed in pence (p)".

- EASDAQ - a Europe-wide stock exchange aimed at innovative, young and fast growing companies.
- Economic Indicators - statistical data showing general trends in the economy. Those with predictive value are leading indicators (they anticipate the direction in which the economy is going – such as movements on the stock exchange reflecting investor confidence or sentiment as well as interest rate movements); those occurring at the same time as the related economic activity are coincident indicators; and those that only become apparent after the activity has occurred are lagging indicators which confirm long-term trends and happen after an event.
- Elliott Wave Theory - A technical analysis technique published by Ralph Elliott, which claims that stockmarkets follow a pattern of five waves up and three waves down (or sometimes, five up and three down in a bull market, and three up and five down in a bear market). According to Elliott, stockmarket movements conform to specific patterns, consisting of a series of waves – because people tend to think and behave in a herd-like way (i.e., people's response to price changes isn't reasoned or random, but is determined by "shared mood trends"). Every wave consists of a number of smaller waves conforming to the same pattern, so it is possible to discern Elliott Waves in price movements during an hour or a century.
- Equity - that part of the company's share capital represented by ordinary, or voting, shares. The risk-sharing aspect of the company's invested capital.
- Ethical Investments (also known as Socially Responsible Investment (SRI)) - these are investments where the fund manager will take an ethical or environmental view on companies before deciding to include them in the portfolio.
- Eurobond **(also called "global bond")** - an international bond issued and traded outside the country in whose currency it is denominated and outside the regulations of a single country. Multinational companies and national governments use Eurobonds to raise capital in international markets. Eurobonds are attractive methods of financing as they give issuers the flexibility to choose the country in which to offer their bond according to the country's regulatory constraints. In addition, they may denominate their Eurobond in their preferred currency. Eurobonds are attractive to investors as they have small par values and high liquidity.
- Euro Depositary Receipts (EDRs) - as with other depositary receipts (see American Depositary Receipts and Global Depositary Receipts), the EDR is a certificate representing ownership of the issuer's underlying shares. Prices of EDRs are quoted in euros and are often close to values of related shares, but they are traded and settled independently of the underlying shares.
- EV/EBIT ratio (Enterprise value to earnings before interest and tax) - this valuation ratio is similar to, but somewhat simpler than EV/EBITDA, with which it shares the advantage of valuing a company regardless of its capital structure. The ratio is: *EV ÷ EBIT*. The ratio is not used much in practice. EV/EBITDA is generally preferable, but sometimes the information needed is not available: for example, when doing a sum-of-parts valuation and divisional/subsidiary depreciation and amortisation numbers are not available. The EV/EBIT ratio indicates how many times the market values the operational result of the company. A low ratio suggests poorly efficient use of a company's resources, even if its profit margin is high.
- Ex - when appended to the share price, means "excluding". Thus a share price quoted ex dividend (xd or ex div.), means that you will not receive the announced dividend when you buy the shares. Conversely, you will still receive the dividend when you sell the shares xd, even though you do not hold the shares at the actual time of the dividend payment.
- Exchange Traded Fund (ETF) - an ETF provides an investor with the opportunity to own a theoretical investment. Instead of owning individual equities, the investor buys a share in the index. A single tradable instrument thus effectively allows investment in the performance of all of the constituent stocks. This is similar in concept to investing in an index-tracking fund but an ETF can be traded throughout the day with no tracking errors. The ETF market started in the USA and has now crossed to Europe. In index calculation terms there is little or no difference between ETF and non-traded indexes and thus demand has increased for index calculation systems, albeit for use in another field. Perhaps the best way to think about an ETN is like a bond whose return to the investor depends on the performance of an exchange traded fund.

- Execution Only - the service provided by a broker who buys and sells shares (or transacts insurance business) on the instructions of clients but who offers no advice about what to buy and sell.
- Federal Reserve System - the central banking system of the United States - comprised of the Federal Reserve Board, the 12 Federal Reserve Banks, and the national and state member banks. Its primary purpose is to regulate the flow of money and credit in the country. The Federal Reserve was established in 1913 to maintain a sound and stable banking system throughout the United States and to promote a strong economy.
- Financial Adviser - there are two main types of financial advisers, Independent Financial Advisers and Tied Agents (Company Representatives). Independent Financial Advisers have access to the entire market place to choose the most suitable products and services for their clients whereby a Tied Agent is restricted to the products of their sponsor company.
- Financial Services Compensation Scheme (FSCS) – the FSCS is the compensation fund of last resort for customers of authorised financial services firms. The FSCS deals with claims against authorised firms (those regulated by the Financial Services Authority (FSA)) that are unable, or likely to be unable, to pay claims against them. The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is £50,000 per person per firm. The maximum level of compensation for claims against firms declared in default before 1 January 2010 is 100% of the first £30,000 and 90% of the next £20,000 up to £48,000 per person per firm.
- Fiscal Policy - the government's decisions about the amount of money it spends and collects in taxes to achieve full employment and a non-inflationary economy capable of maintaining economic growth.
- Flat Yield (also called Running Yield or Interest Yield) - it is the income you earn in a year per £100 market value of a bond. The figure is calculated by dividing the coupon by the market price and multiplying by 100.
- Fractionalised Reserve Banking - a system in which banks keep only a fraction of their deposits on reserve as cash and deposits at the Central Bank. In a 100 percent reserve banking system, banks would be unable to create money by making loans. However, holding less than 100 percent allows banks to make loans and, in turn, create money in the economy.
- Franked Income or Franked Investment Income – this is Dividends and other distributions from UK companies that are received by other companies. The principle of UK corporate taxation is that once one company has paid corporation tax, any dividends it pays can pass through any number of other companies without carrying a further corporation-tax charge, hence the term 'franked'. Thus franked investment is exempt from corporation tax in the hands of the recipient company.
- Free Cash Flow – this is the amount of cash generated by the business after meeting all its operating obligations for interest, tax and dividends and after all capital investment. It shows how much money the company could pay out to shareholders without expanding and without running down its existing operations The higher a company's free cash flow yield, the better.
- Free Float – that part of the share capital of a Company that is actively traded on the stock exchange that are not held by large owners and which have no sales restrictions. It is thus a measure of how many shares are reasonably liquid. The free float or a public float is usually defined as being all shares held by investors other than:
  - shares held by owners owning more than 5% of all shares (those could be institutional investors, "strategic shareholders," founders, executives, and other insiders' holdings)
  - restricted stocks (granted to executives that can be, but don't have to be, registered insiders)
  - insider holdings (it is assumed that insiders hold stock for the very long term.
- FTSE - Financial Times Stock Exchange, the joint operation for compilation and maintenance of the indices used as the key performance benchmarks for the UK Stock Market.
- FTSE Index - three indices comprise the FTSE All Share index - FTSE 100, FTSE Mid 250 & FTSE Small Cap. A fourth index, the FTSE Fledgling, covers newly listed and other listed companies not included in the other indices.
- Fundamentals - these determine a company, currency or security's value. A company's fundamentals include its assets, debt, revenue, earnings and growth.
- Fund Manager - the person or people responsible for deciding on asset and stock allocation in a collective investment.
- Futures – a tradeable contract committing you to take delivery (if you are the buyer) or to make delivery (if you are the seller) of an agreed amount of something such as shares,

commodities or currency.

- Gilt-Edged Securities (or Gilts) - UK Government bonds or other securities or instruments issued by the Government paying, usually, a fixed rate of interest and regarded, because of its Government backing, as the safest long-term investment.
- Global Deposit Receipts (GDRs) - these are negotiable certificates issued by depositary banks which represent ownership of a given number of a company's shares which can be listed and traded independently from the underlying shares and typically used by companies from emerging markets. GDRs can be listed on either the Main Market or the Professional Securities Market. A GDR will be used to access two or more markets, usually London and the US. They are often launched for capital raising purposes, so the US element is generally either a Rule 144(a) ADR or a Level III ADR, depending on whether the issuer aims to tap the private placement or public US markets. These securities are quoted and traded in US dollars on the International Order Book and the associated dividends are paid to investors in US dollars. GDRs are settled in either DTC or Euroclear Bank enhancing their cross border liquidity. GDRs allow purchasers to gain exposure to companies which are listed on foreign markets without having to purchase the shares directly in the market in which they are listed.
- Gross Domestic Product (GDP) - this is the standard wealth measure for the economy in a country, namely of all the services and goods produced in a year. There are three main ways of calculating GDP - through output, through income and through expenditure.
- Growth Companies - those companies that are expected to have continual growth, year on year, in their earnings per share.
- Home Income Plan - this is a way of a person (usually having reached retirement age) to raise money or an income by giving up ownership (or part ownership) of their house in exchange.
- Horizontal Ratio Analysis - using financial ratios to provide comparison of a company's performance across a series of different financial periods (years).
- Indices – indices are benchmarks based on a "basket" of currencies or shares which show the movement in value from one period to another, for example: the FTSE 100 is an index of the largest 100 companies traded on the London Stock Exchange and includes shares such as GlaxoSmithKline, Royal Dutch Shell, Tesco and Vodafone.
- Initial Public Offering (IPO) - an IPO is the first sale of stock (shares) by a private company to the public. IPOs typically involve small, young companies raising capital to finance growth. For investors IPOs can be risky as it is difficult to predict the value of the stock (shares) when they open for trading. An IPO is effectively 'going public' or 'taking a company public'.
- Insider Dealing - under the Criminal Justice Act (1993) Insider Dealing or as it is sometimes called Insider Trading is a crime, committed when an individual in possession of unpublished price sensitive information (that is, not in the public domain) and/or knowingly connected with a company attempts to, or actually deals in its shares; or when that information is communicated to a third party with the purpose that the third party may use it to trade unfairly.
- Interest coverage ratio (also called interest coverage or times interest earned) – this is arrived at by taking income before interest expenses and taxes (EBIT) and dividing it by the amount of interest that a company pays on its debt. The ratio indicates how well the company's earnings are able to cover the company's debt. The calculation shows a company's ability to meet its interest payments on outstanding debt. The lower the interest coverage ratio, the larger the debt burden is on the company. The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses.
- Interest Rate Spread – this the gap between the interest rate a bank pays on deposits and the higher rate it charges for loans. The yield the lender charges over a specific index that is commensurate with the risk of a given transaction. Usually, the "spread" is quoted in the terms of basis points. It shows the extent to which interest earning capacity of an entity exceeds or falls short of its interest cost obligations. The formula is: (Interest earned ÷ Interest-earning assets) less (Interest paid ÷ Interest-costing liabilities).
- Interest Rate Swap - a transaction in which two counterparties exchange interest payment streams of differing character based on an underlying notional principal amount. More simply, interest rate swaps are simply the exchange of one set of cash flows (based on interest rate specifications)

for another. The advantage to this is that one company may have access to lower fixed rates and another company may have access to lower floating rates. The three main types of swap are coupon swaps (fixed rate to floating rate in the same currency), basis swaps (one floating rate index to another floating rate index in the same currency) and cross-currency interest rate swaps (fixed rate in one currency to floating rate in another). Often, an interest rate swap involves exchanging a fixed amount per payment period for a payment that is not fixed (the floating side of the swap would usually be linked to another interest rate, often the LIBOR). In an interest rate swap, the principal amount is never exchanged: it is just a notional principal amount. Also, on a payment date, it is normally the case that only the difference between the two payment amounts is turned over to the party that is entitled to it, as opposed to exchanging the full interest amounts. Thus, an interest rate swap usually involves very little cash outlay.

- Interims (int) - the company's results for, normally, the first six months of its reporting period (usually its financial year). Also the identification of the dividend declared and paid on the results for this period.
- Investment Trust - a closed-end investment fund which is a company listed on the Stock Exchange and whose purpose is to invest in other shares, often specialising in specific types of company, geographical area or industrial sector.
- Kondratiev Cycles - the discovery of cyclic phenomena of long duration in economic activity is attributed to the Russian economist Nikolai. D Kondratiev (1892 to 1938) who, in the 1920s, described the existence of long waves in the world economy. He based his theory on the observation of trends in the fluctuation of 19th-century economic indicators (mainly prices), and he explained the occurrence of long waves in terms of the durability and production period of and amount invested in, particular types of capital goods. The specific source of the long wave was the tendency of investment in these basic capital goods to occur in clusters. The notion of long waves (or Kondratiev cycles) is a 50-60 year cycle in prices, interest rates and other economic variables. Kondratiev cycles are most readily apparent in monetary data such as prices and interest rates.
- Individual Savings Account (ISA) – Individual Savings Account, the replacement for PEPS and TESSAS launched in April 1999. Maxi-ISAs can include cash and stocks and shares in a single ISA with one manager. Mini-ISAs enable you to have separate ISAs with different managers for cash and stocks and shares.
- Inflation – inflation is caused by an increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a unit of currency making it worth less.
- Internal Rate of Return (IRR) - this is the return which can be earned on the capital invested in the project, i.e. the discount rate which gives a Net Present Value (NPV) of zero. This is equivalent to the yield on the investment. A project is a good investment proposition if its IRR is greater than the rate of interest, including an appropriate risk premium.
- Junk Bond - a bond (or loan to a company) with a high interest rate to reward the lender for a high risk of default.
- Keynesian Economics - the economics of John Maynard Keynes. In modern political parlance, it is the belief that the state can directly stimulate demand in a stagnating economy: for example, by borrowing money to spend on public works projects like roads, schools and hospitals.
- Lamfalussy Process – this is an approach to the development of financial service industry regulations used by the European Union. Originally developed in March of 2001, it is named after the chair of the EU advisory committee that created it, Alexandre Lamfalussy. It is composed of four "levels," each focusing on a specific stage of the implementation of legislation. At the first level, the European Parliament and Council of the European Union adopt a piece of legislation, establishing the core values of a law and building guidelines on its implementation. The law then progresses to the second level, where sector-specific committees and regulators advise on technical details, then bring it to a vote in front of member-state representatives. At the third level, national regulators work on coordinating new regulations with other nations. The fourth level involves compliance and enforcement of the new rules and laws. The Lamfalussy Process provides several benefits over traditional lawmaking, including more-consistent interpretation, convergence in national supervisory practices, and a general boost in the quality of legislation on financial services. This has been demonstrated best in the development of the Markets in Financial Instruments Directive.

- Letters of Credit - these are used by exporters and importers, and usually provided by the importing company's bank to the exporter to safeguard the contractual expectations and particularly financial exposure of the exporter of the goods or services.
- LIBOR (The London InterBank Offered Rate) - this is an interest-rate benchmark gauging how much banks and other finance houses charge each other to borrow money. BBA LIBOR fixing evolved in the early 1980s with the growth of syndicated lending and early developments in the derivatives markets. Since then it has assumed an increasing importance as well over 20% of all international bank lending and more than 30% of all FX transactions take place in London. BBA LIBOR is now used to calculate the interest rates applying to a wide range of contracts. In April 2008, Banks were calling for alternatives to the use of LIBOR due to fears that it may be distorted. The distortion can arise because LIBOR is based on quotes from banks as to the rate of interest they are prepared to lend unsecured funds to other banks but it is difficult to check whether trades are actually conducted at the quoted rates.
- Liquidity - the portion of an investment portfolio that is not fully invested but is represented by cash holdings.
- Loan-to-Own (or Distressed-Debt Strategy/Rescue Financing) – a strategy used by private equity and other investors to purchase companies as an alternative to conventional asset, stock or merger transactions. In applying these strategies, creditors use their debt positions to take ownership of troubled companies which agree with their lenders and shareholders to dramatically strengthen their balance sheet by swapping the majority of their debt for equity. It provides an opportunity for investors to take control of a company without buying it outright, providing capital to a business that needs money to continue operating. The strategy can also be applied by Hedge Funds and Private Equity investors to acquire debt, and sometimes certain amounts of equity or management control, such as voting power or board seats, from a lender of a distressed company.
- Managing Investments - the business of arranging for investments to be bought and sold on behalf of clients. This is a regulated activity under the Financial Services and Markets Act.
- Mkt cap/Market capitalisation - Market capitalisation is the number of shares in issue multiplied by the share price at the time the market capitalisation was calculated.
- Margin Call - a demand from a broker to the client asking for additional funds to be deposited in a margin account to meet margin requirements because of adverse price movements. This arises when derivatives (such as a spreadbet) are bought, for example with an initial deposit of say 10% of the value of the underlying shares, and the share value falls when you expected it to rise.
- Market Maker - a Stock Exchange member firm that is obliged to make a continuous two-way price in the shares it follows. This is a commitment to offer to buy and sell the securities it trades in.
- Market Neutral Funds - a hedge fund strategy that seeks to exploit differences in stock prices by being long and short in stocks within the same sector, industry, market capitalisation, country, etc. This strategy creates a hedge against market factors. Market neutral funds aim to deliver above market returns with lower risk by hedging bullish stock picks (buys) with an equivalent number of short bets (sells). The strategy attempts to profit from the current direction of the market. A person using the strategy will take both long and short positions at the same time by holding a market neutral position to exploit any momentum in the market. Hedge funds commonly take a market neutral position as they are focused on absolute return as opposed to relative return. On top of investing, some income is also generated from the interest earned by placing the cash proceeds of the short sales in savings accounts. The goal is to deliver consistent returns, ranging anywhere from 3% to 6% above Treasury bills or gilts, after fees, whether the market is going up or down. However, not all market neutral funds are lower risk.
- Marking to Market – (also called mark to market or marked to market) this is the process by which changes in the value of futures contracts are settled daily. The losses or gains on this type of derivative contract are assessed daily in reference to the value of the underlying price. The term "Marking to Market" can also refer to the practice of reporting the value of assets on a market rather than book value basis.
- Mean reversion - This is a tendency for individual stocks or entire asset classes to revert to their long-term averages after periods of relative under- or over-performance. It is thus based on the mathematical premise that all prices will eventually move back towards the mean or average return. If there is a change in prices (unexpected jump, either up or down), prices will return or revert eventually to the level before the change. The time it takes to

revert is often referred to as the time to reversion.

- Mid Price - the mid point of the buying and selling spread (bid/offer spread) quoted by the market makers. It is the price shown in the share price pages and market reports in the financial media, but it is not the price at which you could necessarily expect to buy or sell.
- MiFID – this stands for the Markets in Financial Instruments Directive which introduced a single market and regulatory regime for investment services across the 30 member states in the EU. It came into effect on 1 November 2007 and replaced the Investment Services Directive (ISD).
- Modigliani & Millers (MM) Capital Structure Theories - (i) MM-no tax, which proves that no optimal capital structure exists, and that the WACC is invariant to debt / equity ratio; or (ii) MM-with tax which suggests that the tax shield should be exploited up to the point of almost 100 per cent debt financing.
- Monoline – a company specialising in a single type of financial business, such as credit cards, home mortgages or a sole class of insurance and which may use direct marketing practices and statistical models to target specific customers.
- Mutual Fund - a US term for collective investments. They are pooled investments and are the equivalent of UK Unit Trusts and Open Ended Investments Companies.
- Naked Shorting - the illegal practice of short selling shares that have not been affirmatively determined to exist. It is illegal because it allows manipulators a chance to force stock prices down without regard for normal stock supply/demand patterns. Ordinarily, traders must borrow a stock, or determine that it can be borrowed, before they sell it short. However, some professional investors and hedge funds take advantage of loopholes in the rules to sell shares without making any attempt to borrow the stock.
- National Association of Securities Dealers Automatic Quotation System (Nasdaq) - an electronic quotation system that provides price quotations to market participants about the more actively traded common stock issues in the OTC market. About 4000 common stock issues are included in the Nasdaq system.
- OFEX – this was a UK unregulated, off exchange, alternative to the official Stock Market, organised by JP Jenkins Ltd., and targeted at smaller companies, with a potentially higher risk, but consequent prospects of greater reward (this market is now the PLUS market).
- Offer Price - the price you have to pay to the Market Maker to buy shares you want.
- Open Ended Investment Company (OEIC) - an OEIC is a pooled collective investment vehicle, in company form. OEICs first became available in May 1997 and were introduced as a more flexible alternative to established unit trusts. An OEIC may have an 'umbrella' fund structure, allowing for many 'sub-funds' with different investment objectives. This means you can invest for income and growth in the same fund without having to worry about purchasing different types of shares. OEICs may also offer different share classes for the same fund. Being "open ended", OEICs can expand and contract in response to demand - just like unit trusts. The share price of an OEIC is the value of all the underlying investments, divided by the number of shares in issue. As an 'open-ended fund' the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.
- Operating Leverage – this is a measure of how revenue growth translates into growth in operating income. Operating leverage is the extent to which a firm uses fixed costs in producing its goods or offering its services. As a measure of leverage, it tells you how risky (variable) a company's operating income is. A business that makes few sales, with each sale providing a very high gross margin, is said to be highly leveraged. A business that makes many sales, with each sale contributing a very slight margin, is said to be less leveraged. As the volume of sales in a business increases, each new sale contributes less to fixed costs and more to profitability. A business that has a higher proportion of fixed costs and a lower proportion of variable costs is said to have used more operating leverage. Those businesses with lower fixed costs and higher variable costs are said to employ less operating leverage: the higher the degree of operating leverage, the greater the potential danger from forecasting risk.
- Option - a derivative that gives the option-holder the right to buy or sell a commodity at a specified price at a certain time or within a certain period of time. Options differ from futures in that with a future the future holder is obliged to go ahead with the transaction whereas the option is simply an option to take that up if they wish.
- Option Premium – this is the price the buyer of an options contract pays for the right to buy or sell a security at a

specified price in the future. It is a non-refundable, full payment (not a deposit) for the rights specified in the stock option contract. The option premium is paid regardless of whether or not the option is actually exercised. The option premium often changes, due to fluctuating market conditions and economic variables. The total value of an option consists of intrinsic value, which is simply how far in-the-money an option is, and time value, which is the difference between the price paid and the intrinsic value. The time value approaches zero as the expiration date approaches.

- P/E ratio (price per earnings) - the P/E ratio is an important indicator as to how the investing market views the health, performance, prospects and investment risk of a public company listed on a stock exchange (a listed company). The P/E ratio is arrived at by dividing the stock or share price by the earnings per share (profit after tax and interest divided by the number of ordinary shares in issue).
- PEG Factor - The Price/Earnings to Earnings Growth, or PEG ratio or Factor is used as a rule-of-thumb measure to consider basic value while taking earnings into account. The factor is used to indicate the relative attraction, and consequent value enhancing potential, from investing in a growth company. It indicates the relationship between the P/E Ratio and the earnings per share growth rate. A PER of 15, with an earnings growth rate for the company of 30%, gives a PEG factor of 0.5 (15/30). The lower a PEG the better because it means a stock is cheap relative to its earnings growth potential. The formula for Peg Factor is P/E Ratio divided by estimated future earnings per share growth rate.
- Penny Share - the term usually applied to companies whose shares have a very low price, normally under 50p per share. Companies, whose shares have speculative appeal, represent greater risk and are often issued by former, high riding companies, now deemed to be on harder times.
- Performance Spread - the percentage difference between the actual rate of return on an investment and the required rate given its risk class.
- Piotroski (or F) Score - a method of evaluating stocks devised by Joseph Piotroski, an Accounting Professor at the University of Chicago. He reasoned that because value stocks are troubled companies by definition, many are financially distressed and won't have the financial resources to recover. Pondering on whether he could improve the performance of a value portfolio by throwing out the financially weakest stocks. Piotroski devised a simple nine-criteria stock-scoring system for evaluating a stock's financial strength that could be determined using data solely from financial statements. One point was awarded for each test that a stock passed. Piotroski classed any stocks that scored eight or nine points as being the strongest stocks. His findings were that these strong stocks as a group outperformed a portfolio of all value stocks by 7.5% annually over a 20-year test period. Piotroski also found that weak stocks, scoring two points or fewer, were five times more likely to either go bankrupt or delist due to financial problems.
- Ponzi Scheme – this is an investment scam that appears to pay high returns within a short period of time and at little risk. However, it does so by paying the supposed returns out of the victims' own capital. It's the name given to fraudulent "make money fast" schemes promoted through the Internet and elsewhere. It only generates returns only by recruiting new investors and the money collected from them is used to pay the return. The scam is named after Carlo (Charles Ponzi), a clerk in Boston, USA, who first used the scheme in 1919.
- Portfolio - the total investments held in different companies or investment trusts by an individual investor or organisation.
- Pound Cost Average (or Averaging) – for £s, this is the regular investing of fixed amounts over regular periods, typically monthly, in order to accumulate holdings in securities such as shares, unit trusts and investment trusts. When for example a unit trust price or investment trust price has fallen, more units or shares can be purchased for that month. Similarly, when the price rises then fewer units or shares can be purchased. Over a period of a few years, the average price paid will be lower than the average share price for that period since more shares are bought at the lower price and fewer at the higher price. For $s (when it is called a *Constant Dollar Plan*), this is the same in that it is a plan enabling investors to accumulate shares in a mutual fund by purchasing them on a regular basis (for example monthly) with a fixed dollar amount. The dollar amount buys more shares when the price is low than when it is high, and over time the investor will have accumulated shares at a cost which is neither high nor low, but average for the period in question.
- Preference Shares - dividends on preference shares must be paid before Dividends are paid on Ordinary Shares hence the word 'preferred'. They are paid at a set percentage of the nominal or par value of the preferred share. For

Cumulative Preference Shares, all past unpaid preference dividends must be paid before an ordinary share dividend is paid. Preference Shares are not part of a company's equity and, on a winding up of a company, are normally paid out before Ordinary Shares.

- Prelim/Preliminary Statement - the announcement made by the company to the Stock Exchange on its annual or interim results, earnings and proposed dividend and made prior to the publication and release of the full Report.
- Price Sensitive - price sensitive information is information or data related to a company's trading or any other affairs which is likely, if generally known, to have an influence on its share price. Use of such information prior to general release could lead to criminal charges of Insider Trading.
- Prime Broker - a prime broker is a large bank or securities firm that give one-stop shop administrative and back office support including professional services to hedge funds, large institutional customers and other professional investors.
- Profit-participating Deferred Shares (PPDS) - Profit-participating deferred shares are capital instruments that building societies will be able to issue to strengthen their balance sheets. This will help building societies that are suffering from a lack of access to capital as they face losses amid plunging property values. Unlike banks, building societies cannot raise new equity to offset losses. Like bonds, the instruments will pay interest, but like a stock, their value will fluctuate along with the company's profitability. PPDS will not be protected deposits for the purposes of the Financial Services Compensation Scheme.
- Promissory Note – this is an unconditional promise made by one person to another to pay a fixed amount on demand or at a specified future date. It contains an unconditional promise to pay a certain sum to the order of a specifically named person or to bearer—that is, to any individual presenting the note. A promissory note can be either payable on demand or at a specific time.
- PROSHARE - the organisation set up to encourage, and support, investment in the stock market by private individuals.
- Prospectus - the formal document issued by, or on behalf of, a company when it first seeks entry to, for example, the Stock Exchange's Official List (and also at other times when an unquoted company wishes to issues shares). It describes the company's business background, assets and financial performance and often, an official forecast on future performance expectations. Prospectuses will also be published for any subsequent issues of new shares, such as a rights issue.
- Quant Fund - a mutual fund that makes investment decisions by quantitative analysis. In such funds, the managers build computer-based models to determine whether or not an investment is attractive.
- Quantitative Easing - Quantitative easing was first used as a tool of monetary policy by the Bank of Japan to fight domestic deflation in the early 2000s. It's a term used when a central bank creates money out of 'thin air' to inject into the banking system. The aim is to increase the amount of deposits in private banks so that, by way of deposit multiplication, they can increase the money supply by increasing debt (lending). *'Quantitative'* refers to the money supply; *'easing'* refers to reducing the pressure on banks. A central bank can do this by buying government bonds (treasury securities in the US) in the open market, or by lending money to deposit-taking institutions, or by buying assets from banks in exchange for currency, or any combination of these actions. These have the effects of reducing interest yields on government bonds, and reducing inter-bank overnight interest rates, and thereby encourage banks to loan money to higher interest-paying bodies. In layman's terms, the central bank creates more money (a liability for the central bank) and uses this money to buy securities in the open market (an asset).
- Quoted Company - a company whose shares are listed on an official Stock Exchange.
- Rappaport's Value Drivers - pioneered by Alfred Rappaport, the shareholder value approach is by definition forward looking, cash based, long term, and risk adjusted. Rappaport says there are seven key factors which determine value. They are: 1. Sales growth rate. 2. Operating profit margin. 3. Tax rate. 4. Incremental fixed capital investment. 5. Incremental working capital investment. 6. The planning horizon. 7. The required rate of return.
- Real Rate of Return - the rate that would be required in the absence of inflation.
- Recession – Recession is a significant decline in activity spread across the economy, lasting longer than a few months. It is seen in industrial production, employment, income, and wholesale-retail trade. Recession usually follows a boom and precedes a depression. It is characterised by rising unemployment and falling levels of output and investment. The technical

indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's GDP. (GDP stands for "gross domestic product" and is the standard wealth measure for the economy). A recession is a national or world event, by definition.

- Redemption Yield - any one of several methods of calculating what interest rate is necessary for the market price of a bond to equal the net present value of the remaining interest payments and redemption value.
- Relative Strength - this is regarded as one of the most important technical analysis indicators. The relative strength, for a given period, indicates the performance status of the company's share price, relative to the performance of an underlying, benchmark index, for the market over the same period.
- Repo - a repurchase agreement (also known as a Sale and Repurchase Agreement or Buyback) which allows a borrower to use a financial security (such as Treasury Bills) as collateral for a cash loan at a fixed rate of interest. In a repo, the borrower agrees to sell immediately a security to a lender and also agrees to buy the same security from the lender at a fixed (higher) price at some later date.
- Reverse Acquisition (or Reverse Take Over) - a technique used by a private company to go public without jumping through all the regulatory hoops that going public usually requires. The private company acquires majority ownership in a publicly listed company that has no assets or liabilities (called a shell), changes the company's name, and installs its management and board of directors.
- Rights Issue - An additional issue of shares by the company to existing share holders and at an advantageous, discounted, price. A means for the company to raise new funds for further development or to finance a new acquisition for cash. A 2 for 5 rights at 145p means that the existing share holder has the right to acquire a further 2 shares for every 5 currently held at a new cost of 145p per share acquired.
- Scrip Issue (Bonus Issue) - shares issued to shareholders, in proportion to existing holdings, to increase the number of shares to make them easier to sell in smaller denominations.
- Securities - the general name for stocks, shares and bonds issued by the company to investors.
- Shadow Banking - the "shadow banking system" or the "shadow financial system" is largely formed by non-bank financial institutions that (just as banks do), borrow short and in liquid forms and lend or invest long in more illiquid assets. They are able to do this via the use of credit derivative instruments which allow them to evade normal banking regulations such as those related to specifying ratios of capital reserves to debt - as they are not depositary institutions, these entities do not have direct or indirect access to the central bank's lender-of-last-resort support. In conditions of market illiquidity, they could go bankrupt if unable to refinance their short-term liabilities. These financial institutions are subject to market risk, credit risk and especially liquidity risk, since their liabilities are short-term while their assets are more long term and illiquid. The term "shadow banking system" is attributed to Paul McCulley of PIMCO.
- Shorting - short selling or "shorting" is the practice of selling things the seller does not own, (often financial instruments), in the hope of repurchasing them later at a lower price. Often, the sold item is 'borrowed' or 'rented' for the period of sale and re-purchase. Short-sellers attempt to profit from an expected decline in price (in contrast to the ordinary investment practice, where an investor *"goes long,"* purchasing a security in the hope the price will rise).
- Short Selling: Regulatory Developments - on 19 September 2008, the UK's Financial Services Authority (FSA) published Short Selling (No 2) Instrument 2008. It prohibits short selling in relation to UK financial sector companies, defined as a company that is a UK bank, UK insurer or a UK incorporated parent undertaking of either of these. The FSA has published a list of the UK incorporated banks and insurers to which the Instrument applies.
- Slump (or Economic Slump) - a period in which a country's economy is greatly affected by unemployment, low and low levels of trade and investment and resulting in poverty. It is the sudden falling off or decline in economic activity, prices, or business (associated with "Depression" and "Recession" although perhaps lasting shorter than these).
- Sovereign Wealth Funds (or SWFs) - in broad terms, SWFs are investment funds created and owned by governments to invest in foreign assets (such as property, shares, bonds or other financial instruments) for the purpose of generating long term investment returns. SWFs encompass a wide range of funds and a variety of investment strategies and management but share common characteristics.
- Split Capital Investment Trusts -

some investment trusts issue more than one type of share. They are called Split Capital Investment Trusts and form about 10% of the whole market. The simplest "Split" is divided between capital and income shares. The capital shares receive no dividends over the life of the trust, while the income shares receive all the income generated by the whole fund. This creative financial marketing is valuable because it enables private investors to select precisely the sort of investment they need.

- Spread - this is the difference between the Market makers buying (offer) and selling (bid) prices.
- Spread Betting - a form of gambling on the outcome of any event where the more accurate the gamble, the more that is won and conversely the less accurate the more that is lost.
- Standard and Poors - a US credit rating organisation, awarding ratings of AAA (triple A) to D. Anything below BB is purportedly a doubtful proposition for investment purposes.
- Stagflation – put simply, stagflation is an economic state in which inflation combines with a downturn in the economy – "stagnation with inflation". It is an economic downturn characterised by the simultaneous existence of stagnation and persistent and intractable inflation. Stagflation occurs when the economy isn't growing but prices are - not a good situation for any country.
- Standard Deviation - this is a statistical measure of the distance a quantity is likely to be from the average value. In finance, standard deviation is applied to the annual rate of return of an investment, to measure the investment's volatility, or "risk".
- Stamp Duty - the tax on the purchase of shares and property. Stamp Duty is not paid by sellers.
- Status - this indicates the market on which the company's equity capital is traded. "Full" means fully listed on the main London Stock Market. "AIM" means that the company is a member of the Alternative Investment Market.
- Stock Exchange - a market where stocks and shares are bought and sold.
- Structured Investment Vehicles (SIVs) - these are usually created by investment banks to raise "off-balance sheet finance". The investment vehicle holds mainly highly rated asset-backed securities and funds itself using the short-term commercial paper market as well as the medium-term note (MTN) market. Because of the rolling nature of its funding, an SIV is highly dependent on maintaining the highest possible short-term and long-term credit ratings. The first SIVs were founded in the mid-1980s as bankruptcy-remote entities and were sponsored by large banks or investment managers for the purpose of generating leveraged returns by exploiting the differences in yields between the longer-dated assets managed and the short-term liabilities issued.
- Stock Splitting - a stock split increases the number of a company's issued shares by dividing each existing share. The stock's market capitalisation remains the same, and the value of the stock in aggregate is the same, but there are more shares available and thus each share is worth proportionately less. For example, with a 2-for-1 stock split, each shareholder receives an additional share for each share held, but the value of each share is reduced by half: two shares now equal the original value of one share before the split. The most logical reason for stock splitting is to increase a stock's liquidity and can bring the share price down to a more attractive level for investors.
- Stop Loss - an order placed with a broker to sell a security when it reaches a certain price. It is designed to limit an investor's loss on a security position. It can also be known as a "stop order" or "stop-market order". For example, setting a stop-loss order for 10% below the price you paid for a share would limit your loss to 10%.
- Subordinated Loans - often an unsecured loan and one which would only be repaid after secured loans had been repaid.
- Sub-Prime Mortgages and Loans - the phrase 'sub-prime' in relation to mortgages, sometimes also referred to as "non conforming mortgages", generally refers to those mortgages targeted at consumers with impaired or low credit ratings (with payment delinquencies and possibly county court judgments, and bankruptcies) who may find it difficult to obtain finance from traditional sources. These mortgages are also often used to consolidate existing secured and non-secured debts. These borrowers may also show reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. These loans have a higher risk of default than loans to prime borrowers and this is reflected in high interest and other penal terms. Some sub-prime lenders are independent, but increasingly they are affiliates of mainstream lenders operating under different brand names.
- Swap - exchanging one thing for another and used in the financial arena e.g. currency swap, for trading purposes, or interest rate swap, where borrowers swap fixed rate for variable rate investments.
- Synthetic(s) (and Synthetic Security)

- a financial instrument that is created artificially by simulating another instrument with the combined features of a collection of other assets with different characteristics than could otherwise be achieved, for example, higher yield, better liquidity, or interest rate protection. These securities mimic or simulate conventional financial instruments that may or may not be available to investors. Most such deals are Private Placements involving two investors, and usually are created through Interest Rate Swaps, for example, creating a synthetic Floating Rate Note by matching a fixed rate bond and an interest rate swap. An investment firm might create a synthetic index that seeks to outperform a particular index by purchasing options contracts rather than the equities the actual index owns, and using the money it saves to buy cash equivalents or other debt securities to enhance its return on the derivatives.

- Tangible Assets - the combined total of fixed assets and long term investments.
- Tap Stock - a gilt edged security, not issued through the stock exchange, issued at a predetermined price.
- TechMARK - a grouping together of technology companies from a wide range of FTSE sectors into a market with its own identity and its own FTSE indices.
- Tier 1 Capital - a calculation of the strength of a bank in terms of its capital, defined by the Basel Accords, typically comprising ordinary shares, disclosed reserves, retained earnings and some preference shares.
- **Tobin's Q Ratio** – this is assets divided by replacement value: the market value of a company's assets divided by the replacement value of the company's assets. Tobin's Q is a ratio comparing the value of the stocks of a company listed in the financial market with the value of a company's equity book value. Another use for Q is to determine the valuation of the market as a whole. The formula for this is: value of shares on stock market/corporate net worth. The ratio was developed by James Tobin (Tobin 1969). Tobin's Q is calculated by dividing the market value of a company by the replacement value of the book equity: EMV+LBV divided by EBV+LBV (Where EMV = Equity Market Value, LBV = Liabilities Book Value and EBV = Equity Book Value).
- Toxic Debts - Debts that are very unlikely to be recovered from borrowers. Most lenders expect that some customers cannot repay; toxic debt describes a whole package of loans where it is now unlikely that it will be repaid.
- Tracker Funds - a fund which aims to achieve the same returns as a chosen share index, and which does this by investing in all the companies in the index according to a market value weighting. Mathematically, this ensures that the fund achieves its aims.
- Tracking stocks - Tracking stocks are securities that are designed to have a value that reflects the value of a division of a company. Issuing a tracker is an alternative to a demerger or partial demerger. A separate listing for a subsidiary should cause the market to separately value that subsidiary. This often increases the sum of parts valuations of the parent company. A tracking stock allows a company to both retain full control and have the benefits of the separate valuation of a division. A security is created that shares in the profits of a division, but that has reduced or no voting rights.
- Treasury Bills - a short term bill of exchange, depending on discount to give it value, as it does not pay interest.
- Treasury Stock - loans to the government for an initial period exceeding 90 days.
- Umbrella Fund - a collective fund containing several sub-funds, each of which invests in a different market or country. The umbrella fund structure makes it cheaper for savers to move from one sub-fund to another.
- Undated Stocks – these are fixed interest stocks which have no redemption date.
- Unitisation – this is the conversion of an investment trust into unit trust.
- Unit Trust - an open ended collective investment vehicle, not quoted on the Stock Exchange, but investing in stock market listed securities. Units can be redeemed at will, thereby reducing the pool of funds available for investment by the investment managers of the trust.
- Valuation Method - the policy guidelines an investment management team uses to value the holdings in a funds portfolio.
- Value at Risk (VaR) - a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities. In practice, it is the maximum loss not exceeded with a given probability defined as the confidence level, over a given period of time. Although VaR is a very general concept that has broad applications, it is most commonly used by security firms or investment banks to measure the market risk of their asset portfolios (market value at risk). VaR is widely applied in finance for quantitative risk management for many types of risk. VaR does not give any information about

the severity of loss by which it is exceeded. Other measures of risk include *volatility/standard deviation, semi-variance* (or *downside* risk) and *expected shortfall*.

- Vega - a measure of the sensitivity of an option or warrant price to changes in the volatility of the underlying asset.
- Venture Capital Trust (VCT) - a type of investment trust which invests in small unquoted companies including AIM and OFEX companies, and which is designed to attract risk capital from higher rate taxpayers by giving them tax concessions. VCTs are quoted on the London Stock Exchange.
- Volatility/Standard Deviation – this is the speed and magnitude of price changes measured over a certain period of time. A price that frequently moves sharply will be considered to have a high degree of volatility.
- Warrant - a tradable security providing the holder with the right to buy specific shares at a set price on a future date.
- White Knight - A company which comes to the rescue of another listed company which is under siege from an unwelcome bidder. The White Knight may make an improved offer, or it may just be a more acceptable predator than the first bidder, as far as the management are concerned.
- Wholesale Money - funds that are borrowed by financial institutions in large quantities rather than from investors in small quantities. Wholesale banking is banking services for other financial institutions.
- Wrap Account - an account in which a brokerage manages an investor's portfolio for a flat quarterly or annual fee. This fee covers all administrative, commission, and management expenses. Sometimes this also includes funds of funds.
- Xa - another way of writing ex all. This means that shares bought in a company are without entitlement to current dividends, rights issues or scrip issues. Such entitlement remains with the seller of the shares.
- Xc - another way of writing ex scrip or ex capitalisation. Shares bought in a company are without entitlement to current scrip issues. Such entitlement remains with the seller of the shares.
- Xd - another way of writing ex dividend. Shares bought in a company are without entitlement to current dividends. Such entitlement remains with the seller of the shares.
- Xr - another way of writing ex rights. Shares bought in a company are without entitlement to current rights issues. Such entitlement remains with the seller of the shares.
- Xw - another way of writing ex warrants meaning that shares bought in a company are without entitlement to warrants.
- Yankee - in the US, a Yankee is a dollar denominated bond issued in the USA by a foreign bank.
- Yearling - a local authority bond normally issued for one year.
- Yellow Strip - the yellow band on a SEAQ or SETS screen which displays the highest bid and the lowest offered prices that competing market makers are offering in a security. They are known colloquially as the 'touch' or 'yellow strip' prices.
- Yield - the annual dividend or interest income relative to the value of the underlying security on which it is received. This is expressed as the percentage the income per share bears to the share price.
- Yield Curve – a curve which plots current yields of fixed interest securities against their times to redemption (maturity). This enables investors to compare the yields of short, medium and long term securities at a given time.
- Yield Gap - a comparison between the average yield from shares (dividend yield) and the average current yield from long dated gilts (15 years or more to redemption).
- Yield to Maturity (YTM) - this is the rate of return anticipated on a bond if it is held until the maturity date.
- Zero-Coupon Bonds - these are securities which do not pay interest. They are issued at a deep discount to the redemption price so that the investor receives the return in the form of capital gain rather than income.
- Zero-Coupon Convertible - a zero-coupon bond issued by a company can be converted into common stock at a certain price; one issued by a government can be converted into an interest-bearing bond.
- Zero Dividend Preference Shares - these Preference Shares are issued by split capital investment and pay no income but promise to repay the shares at a higher level at a fixed date. The shares are very tax efficient and have been used for school fees planning.
- Zero-Minus Tick - in stock markets, a price which is the same as that for the previous transaction, but less than that of the trade before that. Also known as a zero-downtick.
- Zero-Plus Tick - In stock markets, a price which is the same as that for the previous transaction, but greater than that of the trade before that. Also known as a zero-uptick.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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