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GLOSSARY of Terms

**The A to Z
of the
Stock Market**



*From the co-author of the
Investing & Online Trading
stock market newsletter*

This Glossary of Terms has been produced to aid beginning traders in the challenging task of becoming familiar with new vocabulary and terminology.

A comprehensive Glossary is a valuable reference tool that can be used when attending seminars, watching or listening to financial programs and reading financial market material.

It is made available with our compliments, to Members of the Investing & Online Trading Stock Market Newsletter and to other visitors to www.ShareTradingEducation.com.

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GLOSSARY

Advance/Decline Line

Each day's declining issues (shares with a lower close than the previous day) are subtracted from that day's advancing issues (shares with a higher close than the previous day). The difference is added to (subtracted from if negative) a running sum. Failure of this line to confirm a new high is a sign of weakness. Failure of this line to confirm a new low is a sign of strength.

All Ordinaries Accumulation Index

This accumulation index measures movements in price and dividends of the major shares listed on the Australian Stock Exchange.

All Ordinaries Share Price Index (All Ords)

The All Ords was made up of the weighted (in terms of market capitalization) share prices of approximately 500 of the largest Australian companies. Established by Australian Stock Exchange (ASX) at 500 points in January 1980, it was used as the predominant measure of the overall performance of the Australian sharemarket. It has since been replaced by the S&P/ASX200 and 300 indices.

American-Style Option

An option contract that may be exercised at any time between the date of purchase and the expiration date. Most exchange-traded options in the United States and Australia are American-style.

Arbitrage

The simultaneous purchase and sale of identical or equivalent financial instruments or commodity futures in order to benefit from a discrepancy in their price relationship.

Ask

The lowest price that an investor or dealer is prepared to sell a given security (the same as offer).

Asset Allocation

The investment mix of a portfolio among different asset classes such as shares, fixed interest, cash and property. The investment mix is reviewed periodically to confirm the portfolio meets the changing circumstances of the investor or objectives of the fund manager.

Asset Backing

A company's asset backing equals the net assets of a company divided by the number of shares outstanding. For example, a company with \$1,000,000 in net assets and 100,000 shares issued would have an asset backing of \$10.00 per share. A company that pays a low dividend could still have a strong asset backing.

Assets

Assets are the resources owned by a company, fund or individual. Assets are the actual and potential future benefits that exist and have the potential to contribute directly or indirectly to future cash flows. *Current* assets are investments, money owed, cash, materials and inventories. *Fixed* assets are machinery and buildings. Intellectual property, patents and goodwill are known as *intangible* assets.

At Par

A security which is selling at a price equal to its face value.

At-the-Close

An instruction to a broker to execute an order at the price obtainable 'at the close' of the market on the day it is entered.

At-the-Market

An instruction to a broker to execute an order at the best price obtainable at the moment he or she receives it on the trading floor. Synonymous with *market order*.

At-The-Money

An option is at-the-money if the strike price of the option is equal (or virtually equal) to the market price of the underlying security.

At-the-Opening

An instruction to a broker to execute an order at the best price obtainable as soon as the market opens: no actual price limit is set.

Australian Securities and Investments Commission (ASIC)

The government body which regulates and polices the finance industry. It administers the law and investigates or acts on possible breaches.

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Australian Stock Exchange (ASX)

The Australian market place for trading in shares, bonds and other fixed interest securities. The Australian Stock Exchange replaced the previous State-based exchanges in 1987. Demutualised and listed in 1998.

Automatic Exercise

At expiration, an in-the-money option will be exercised by the *Option Clearing House*, unless the holder of the option has submitted specific instructions to the contrary. The underlying securities would need to be bought or sold or the contract settled with a cash payment.

Averaging Up or Down

The practice of purchasing the same security at various price levels, thereby arriving at a higher or lower average cost.

Back Testing

Optimising a trading strategy on historical data and applying it to fresh data to see how well the strategy works.

Balanced Portfolio

An investment portfolio which contains diversified its holdings over a range of asset classes, typically including shares, fixed interest, property, overseas securities and cash.

Balance of Payments

An accounting record of a nation's currency transactions over a certain time period, comparing foreign amounts taken in to the amount of domestic currency paid out. Balance of Payments figures are published monthly by the Australian Bureau of Statistics. See also *Current Account*.

Balance Sheet

A quantitative financial statement summary of a company's assets, liabilities and net worth at a specific point in time.

Bankruptcy

A proceeding in the Federal Court in which all of an individual's assets and liabilities are placed with an official receiver to liquidate and distribute to creditors, according to prescribed legal guidelines. The debtor is relieved of further liability.

Bear

One who believes prices will move lower. The term is derived from the manner in which a bear fights, which is to rear onto its hind legs and strike down with its front paws.

Bear Trap

A false signal which indicates that the rising trend of a stock or index has reversed when in fact it has not.

Benchmark

A standard, usually an index or other market measurement, used for comparison by a fund manager as a yardstick to assess the risk and performance of a portfolio.

Benchmark Portfolio

A model portfolio used by fund managers to provide a standard for measuring risk/ return performance.

Beta

The degree of sensitivity of a stock in relation to swings in the market.

Bid

The price that the market participants are willing to pay for a security.

Bill of Exchange

An order in writing requiring the party to whom it is addressed to pay a certain sum on a fixed date in the future. Bills of exchange are sold at a discount to face value and are negotiable instruments.

Black-Scholes Option Pricing Model

A mathematical model used to estimate the price of an option to determine fair value.

Blue Chip

The shares of a large national company which is known for excellent management and a strong financial structure; a generic one for quality securities. The name is taken from the colour of the highest priced chip at a casino.

Bond

A debt instrument issued by such entities as corporations, governments or their agencies with the purpose of raising capital by borrowing.

Bonus Shares

Shares which existing shareholders receive from a company on a free, pro rata entitlement basis.

Book Value

The value of an asset or security as it appears on a balance sheet.

Bottom-up Analysis

A form of security analysis in which a company's performance, history, management and potential is more important than general industry and the economy as a whole. The opposite of *Top-down Analysis*.

Bourse

French term for stock exchange derived from the word meaning "purse". More generally, any European stock exchange.

Breadth (Market)

Relates to the number of issues participating in a market move - either up or down. As a rally develops, and the number of advancing issues is declining, the rally is suspect. As a decline develops, and the number of declining issues falls, the decline becomes suspect.

Brokerage

The fee charged by a broker for the execution of a transaction; also called the *commission*. A business involving brokers is also referred to as a 'brokerage house' or 'brokerage firm'.

Bull

One who expects prices to rise. The term is derived from the manner in which a bull fights, which is to lower its' head and thrust up with its' horns.

Bullion

Gold, silver, platinum, or palladium bars or ingots.

Bull Trap

A falsely-generated signal which indicates that the price of a stock or index has reversed to an upward trend, but which proves to be false.

Bundesbank

The central bank of Germany, modeled after the US Federal Reserve.

Business Cycle

A long-term pattern of alternating periods of economic expansion, prosperity, recession, and recovery.

Buy-back

The situation when managed funds are required to repurchase (buy-back) units from unitholders seeking to redeem part or all of their investment. In the financial markets, this term means the purchase of a long position to offset a short position; or a company's repurchase of issued shares.

Call Option

A contract which gives the purchaser the right, though not the obligation, to purchase the underlying security at a specific price within a specific time frame.

Candlestick Charts

A charting method, developed in Japan, that visually shows the relationship between the opening and the closing share price. The price range between the open and close is plotted as a rectangle. If the close is above the open, the body of the rectangle is white. If the close of the day is below the open, the body of the rectangle is black. The lines from the high and low, to the rectangle, are called 'shadows' or 'tails'.

Capital Gain

The amount by which an asset's sale price exceeds its purchase price. An investment that would result in a profit, if sold, is called an *unrealized* capital gain.

Capital Gains Tax (CGT)

A tax assessed on profits from the sale of investments.

Capital Growth

An increase in the capital or market price of an asset.

Capital Loss

The decrease in the value of an investment; the shortfall between the sale price and the purchase price. Capital losses may be offset against other taxation liabilities (eg. income tax) in certain circumstances.

Capitalisation

The market price of a company, calculated by multiplying the share price by the number of shares outstanding. The market capitalisation of the share market is the sum of the value of listed shares.

Capitalization Weighted Index

A stock index which is computed by adding the capitalization of each individual stock and dividing by a predetermined divisor. The stocks with the largest market values have the greatest impact on the index.

Carrying Charge

The cost of storage charges, insurance, interest, and other incidental costs incurred when storing physical commodities over a period of time.

Cash and Carry

The purchase of a physical commodity against the forward sale of that commodity on the futures market.

Cash Flow

A measure of a company's financial health. Calculated as net income plus amounts charged off for depreciation, amortisation, and extraordinary charges; or cash receipts minus cash payments.

Cash Management

The strategy used by a company or fund to administer and invest its cash.

Cash Management Trust (CMT)

A pooled investment fund whereby individuals can collectively invest cash in the professional money market. Pooled funds allow trading in larger volumes of higher-yielding securities and the resulting higher returns can then be returned to the trust members.

Cash Settlement

A transaction in which options and futures contracts that do not require delivery of the underlying security are settled in cash.

Certificate

A formal declaration which is evidence of ownership (eg. of shares in a corporation).

Sometimes called *script*. Certificates are no longer issued since the introduction of the *Clearing House Electronic Subregister System*.

Collateral

Assets pledged by a borrower to secure a loan or other credit, which are subject to seizure upon borrower default.

Commission

A fee charged by a broker for his or her service in purchasing or selling securities or property; also called *Brokerage*. This fee is generally negotiated.

Commodity

A physical item, such as food, metals, and grains that can be traded.

Company

Any legal entity engaging in business, regulated by the Australian Securities Commission under the Corporations Law.

Compliance

Procedures undertaken to ensure internal and external controls and regulations are adhered to.

Compounding

A process whereby the final value of an investment or series of investments increases exponentially over time due to compound interest, ie. when interest is earned on the interest as well as on the initial principal.

Congestion Area (Consolidation)

At a minimum, a series of trading days in which there is no or little progress in price.

Consumer Price Index (CPI)

An index which measures the prices of a selected group of goods and services which typify those bought by ordinary Australian households. It is used as a measure of inflation and allows comparisons of the relative cost of living over time.

Contingent Liability

A liability or obligation which is difficult to quantify or may arise in the event of a certain occurrence, such as the damages which might have to be paid as the result of a successful legal action.

Convertible Notes

Securities which can be exchanged for a specified amount of ordinary shares of a company at a prescribed price or ratio, at the option of the holder.

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Correction (Retracement)

A price reaction, usually temporary, against the prevailing trend but which does not constitute a trend reversal.

Counter-Cyclical

Referring to securities that move in the opposite direction of the overall economic cycle. Investors would try to anticipate and take advantage of securities that are rising when the economy is weakening and falling when the economy is strengthening.

Cum Dividend

Cum is the Latin word for "with". Cum-dividend shares entitle the buyer to the current dividend. The dividend amount is usually reflected in the price of the security in question. The opposite of *Ex-Dividend*.

Currency Risk

The risk that a business faces in relation to the value of overseas investments, which changes when exchange rates change.

Current Account

The part of Australia's Balance of Payments relating to imports and exports of goods and services and the net effect of income received and payments made on Australia's foreign debt and investments. If a negative figure arises from the sum of all these activities, it is a current account *deficit*.

Cyclical Stocks

Shares which are sensitive to the business cycle; generally their performance is tied to the overall economy as they will advance on improving business conditions and decline when business slackens.

Day Order

An order that is placed for execution during only one trading session. If the order cannot be executed that day, it is automatically cancelled.

Day Trading

The practice of buying and selling shares or derivatives within one day's trading. The day is ended with no established position in the market.

Daily Range

The difference between the highest price paid for a share or derivative and the lowest price paid during one trading day.

Debenture

A type of debt security of a company with a fixed rate of interest and backed by the general credit of the issuer, not by a specific security. It is secured by a trust deed over the assets of the company.

Debt to Equity Ratio

A measure of a company's borrowings showing the relationship between long-term debt and common shareholders' equity (ie. borrowings divided by shareholders' funds).

Deficit

The extent to which income falls short of expenditure. The opposite of *Surplus*.

Deflation

A decline in general price levels, often caused by a reduction in the supply of credit or money. Consumer spending is substantially reduced, bank loans are curtailed and the amount of money in circulation is reduced.

Delisting

The removal of securities or shares from listing on the stock exchange. The removal could be the result of a company failing to comply with the exchange's rules, or it is no longer meeting the listing requirements (eg. has been taken over) or is going into liquidation.

Delta

The amount an option will change in price for a one-point move in the underlying security.

Depreciation

The allocation of the cost of an asset over the life of that asset for accounting and tax purposes.

Depression

A period during which business activity enters a prolonged slump. Often characterised by rising unemployment and serious falls in production and the consumption of goods.

Derivative Security

A financial security whose value is determined in part from the value and characteristics of another security. The other security is referred to as the underlying security. Examples are options, warrants and futures.

Discount

Describes any asset that is selling below its normal price. The difference between the present price of a security and the original offering price. Alternatively, the amount by which a security is selling below its present asset backing. The opposite of *Premium*.

Discretionary Account

A trading account over which the holder gives the broker, or someone else, the authority to buy and sell securities without prior approval of the account holder.

Diversification

A portfolio strategy that aims to reduce risk by spreading investments among different classes of securities.

Dividend

A taxable payment made to shareholders from a company's after-tax earnings. Also see *Franked Dividends*.

Drawdown

Reduction in equity of a trading account from a single trade or a series of trades.

Due Diligence

The process of investigating and verifying details of a potential investment, covering such items as a prospectus, operations, management and material facts.

Earnings Before Interest and Tax (EBIT)

A measure of a company's total annual earnings before deduction of provisions. EBIT is one of the key measures used by investment analysts to assess corporate performance.

Earnings Multiple

See *Price/Earnings Ratio*.

Earnings Per Share (EPS)

A company's total earnings divided by the number of shares outstanding; a measure of a company's performance.

Earnings Yield

A company's Earnings Per Share divided by its current share price.

Econometrics

The application of statistical and mathematical methods to estimate economic relationships using empirical data. These relationships between economic forces such as capital, interest rates and labour are often extrapolated to provide forecasts of economic variables.

Efficient Market Hypothesis

The theory that all market participants receive and act on public information about a company and this knowledge is immediately reflected in the company's share price. 'Information' cannot be used to generate superior performance so no investment strategy would be better than a coin toss.

Elliot Wave Theory

Originally published by Ralph Elliot in 1939, it is a subjective, pattern recognition theory based on the influence of crowd behavior on markets. It holds that a rising market follows a pattern of five waves up and three waves down to form a complete cycle.

Emerging Markets

The financial markets of countries with developing economies. Such markets are usually small, with a short operating history, but are becoming increasingly sophisticated and integrated into the international markets.

Eurodollars

American dollars held by banks outside the United States. Usually a result of payments made to overseas companies or individuals for merchandise. Not to be confused with the Euro, the common currency of the European Union.

European-Style Options

An option contract that may be exercised only during a specified period of time just prior to its expiration.

Exchange Rate

The rate at which a currency may be converted to another currency. A floating exchange rate means that a currency is exposed to fluctuations in market forces rather than having a fixed value set by government.

Exchange Traded Option

An option over ordinary shares authorized by an exchange for trading, giving either the right to buy or sell a set number of shares up to a certain date.

Ex-Dividend

Refers to the day when the dividend is subtracted from the price of a stock (the ex-dividend date). Investors who own the stock are paid their dividend on that date. Investors who are short the stock must pay the dividend on that date.

Exercise

The right granted under the terms of a listed options contract. Call option holders may exercise their right to buy the underlying security. Put option holders may exercise their right to sell the underlying security.

Exercise Price

The specified price on an option contract that the option holder has the right to buy (in the case of a call option) or sell (in the case of a put option) the underlying security. Same as *Strike Price*.

Expiration Date

Date on which an option and the right to exercise it, cease to exist.

Federal Reserve

The U.S. Federal Reserve Bank (the 'Fed') is one of 12 regional Federal Reserve banks in America that collectively maintain reserves, issue bank notes and lend money to member banks. The Federal Board of Governors oversees the Reserve Banks, establishes monetary policy and monitors the economic health of the country.

Fibonacci

Thirteenth century mathematician who developed a non linear number sequence in which each two consecutive numbers are added to arrive at the next number in the sequence. The Fibonacci series is 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, etc. One of the ways traders use the numbers is in the parameters of technical indicators. Fibonacci ratios are calculated by dividing a number by previous numbers and subsequent numbers. Traders use the ratios for calculating potential retracement levels, price objectives, and time and price squaring. Fibonacci's intent was to work out a number sequence for the multiplication of a pair of rabbits.

Financial Times Stock Exchange (FTSE)

The FTSE is a market capitalization weighted index of 100 stocks and the United Kingdom equivalent of the US S&P 500 Index and the Australian S&P/ASX 200.

First Notice Day

The first day a buyer of a futures contract can be called upon to take delivery.

Fiscal Policy

Decisions by the President and Congress relating to economic policy- including tax, welfare payments and government expenditure- with the goals of full employment, price stability and economic growth.

Fixed Interest

A set interest rate which produces a fixed flow of income, utilized in such financial instruments as bonds, annuities and preference shares.

Float

The process of putting a company's shares on offer to the public. See also *Initial Public Offering*.

Franked Dividends

A dividend paid out of profits on which the company has already paid tax. The dividends have imputation credits attached, meaning the investor is entitled to a reduction in the amount of income tax that must be paid, depending on his or her marginal tax rate. If a company pays the full company tax rate, the dividends are *fully franked*, otherwise they are known as *partly-franked dividends*.

Fundamental Analysis

Analysis of a security which takes into consideration balance sheet analysis, profit and loss fundamentals, management, the nature of business and other such items.

Futures

A term used to designate all contracts covering the purchase and sale of financial instruments or physical commodities for future delivery on a commodity futures exchange.

Gearing

Using borrowed funds as well as, or instead of the investor's own equity to purchase an asset. See also *Leverage*, *Negative gearing*.

Gilt Edged

High quality, low risk investments with high security, blue chip companies.

Gold Standard

A country's monetary system that backs its currency with a reserve of gold. The country's currency is valued and convertible into a fixed quantity of gold.

Good Till Canceled

An order placed with a broker meaning that it is to stay in the market until either filled or canceled. Most brokers put a limit on the amount of time they will hold a GTC order.

Greenback

A term for the United States paper currency.

Greenmail

A premium paid to a hostile bidder who threatens a company with a takeover by purchasing a large number of its shares, forcing the management of the company to repurchase the shares at an above market price.

Gross

The total amount before deductions have been taken into account. The opposite of *Net*.

Gross Domestic Product (GDP)

The total market value of the aggregate goods produced and services provided in a country over a given year and excluding income earned outside the country. GDP is considered an important measure of the health of an economy.

Gross National Product (GNP)

GDP plus the income earned by domestic residents from their overseas investments, minus income earned in the domestic economy by overseas residents.

Group of Seven (G7)

Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. Their finance ministers from these major powers meet every two years to compare and co-ordinate monetary policies and exchange rate information.

Growth Assets

Assets such as shares and property, which provide investment returns from income and capital growth. Growth assets are compared to debt securities such as fixed interest and/or cash investments and are expected to outperform inflation.

Growth Fund

An investment fund which aims to achieve capital appreciation with an above average rate of after-tax income and capital growth. Typically made up of a balanced portfolio of equities, fixed interest, property and cash, with a medium risk profile.

Hang Seng Index

A market-value weighted index of stock prices on the Hong Kong market, equivalent to the Australian S&P/ASX 200.

Hedge Fund

A type of investment fund, usually used by wealthy individuals and institutions, for which the fund manager is authorised to use a number of aggressive investment techniques, including using derivatives, short selling and leverage.

Hedging

An investment made in order to protect against loss in another security, by taking an offsetting position in a related security, such as an option. Hedges reduce potential losses and also tend to reduce potential profits.

Historical Volatility

The movement in the price of an underlying instrument over an established period of time.

Horizontal Integration

The purchase of a company by another company which is operating in a similar industry. The opposite of *Vertical Integration*.

Household Sector

The section of a country's economy which is made up of individuals and families (rather than businesses).

Hyperinflation

A period of excessive inflation that can leave a country's currency nearly worthless.

Imputation Credit

The tax credit which is passed on to a shareholder who receives a franked dividend.

In The Money

A call option whose strike price is below the current market price of the underlying security or a put option whose strike price is above the current market price of the security. An in the money option has intrinsic value.

Indemnity

A legal agreement designed to compensate an individual for loss or damage incurred by another.

Index

A grouping of shares that gives a measure of price movement, used to gauge the overall health of the market.

Index Arbitrage

Exploiting the difference between a derivatives market and its physical market equivalent by selling one instrument and buying the other, such as buying the shares that comprise an index and selling futures contracts to an equal dollar value. Often called *Program Trading*.

Index Fund

A passively managed portfolio of securities that tries to mirror the performance of a nominated market index, eg. an equity index fund may be designed to track the S&P/ASX 200. Trading decisions of such funds are generally automatic and infrequent so expenses tend to be lower than those of actively managed funds.

Index Option

An option whose underlying security is an index.

Industrial Shares

Shares of companies in the business of producing and/or selling of goods or services; they make up about two thirds of the Australian sharemarket by market capitalisation.

Inflation

The overall general increase in the level of prices of goods and services in the economy, usually measured by examining a basket of goods and services (eg. the Consumer Price Index).

Inflation Hedge

An investment whose value should increase in a time of rising inflation to protect the investor.

Infrastructure

The basic physical facilities and services required by the country's population including roads, utilities, water supply, sewage and telecommunications.

Initial Public Offering (IPO)

The first sale of stock of a company to the public.

Inside Day

A day where the price range of a security is within the previous day's price range; ie a higher low and a lower high

Insider Trading

Illegally trading on information not available to the general public.

Insolvency

Being unable to meet debt obligations as they fall due, owing to an excess of liabilities over assets.

Institutional Investor

An entity with large amounts of its own assets, or assets held in trust by it for others, to invest. Examples are superannuation funds, life companies and banks. Institutional investors account for a large portion of market volume and exert an increasing amount of influence on the market.

Interest Rate Futures

These are futures contracts and transferable agreements whose underlying security is a debt obligation. Interest rate futures contracts offered on the Sydney Futures Exchange are 3 year and 10 year Government bonds, and bank bills.

Intrinsic Value

The actual money value of a security, as opposed to its market price or book value. Also, the amount by which an option exercise price is in the money, calculated by taking the difference between the strike price and the current market price of the underlying security.

Inverted Yield Curve

A situation showing lower yields for long-term interest rates than for short-term interest rates. Also called *negative* yield curve.

January Effect

The tendency of the U.S. sharemarket to rise between 31 December and the middle of January as investors buy back shares sold for year-end tax reasons.

Junk Bond

A high-risk, high-yield, non-investment-grade debt security with a low credit rating.

Keynesian Economics

An economic theory, named after [economist](#) John Maynard Keynes, which advocates government intervention or demand-side management of the economy to achieve stable prices and full employment.

Lagging Indicators

An economic indicator which tends to follow movements in the economy as a whole- such as those of business spending, the unemployment rate and trade figures- and whose publication confirms things that have already happened rather than pointing to emerging trends. The opposite of *Leading Indicators*. Also a technical analysis term for mathematical formulas which follow price movements on a chart. They can be used to confirm trends and generate buy and sell signals.

Laissez-faire

The opinion that free market forces should be allowed to drive an economic system rather than government intervention.

Last Trading Day

The final day during which trading may take place in a particular futures contract or option contract, after which it must be settled by delivery of the underlying security or cash settlement.

Law of Supply

An increase in [supply](#) leads to a decreased price, if [demand](#) is held constant, while a decrease in supply leads to an increased price.

Leading Indicators

Economic indicators which are seen to anticipate future trends or expectations, for example regarding money supply and share prices. The opposite of *Lagging Indicators*, which are based on retrospective or historical statistics. Also, a technical analysis term for mathematical formulas which have the potential to lead changes in price.

Leverage

The degree to which a business or individual investor uses borrowed money. Also, using an asset, such as property, as security for borrowing to invest in the sharemarket.

Leveraged Buy-out (LBO)

The complete takeover of, or gaining a controlling interest in, a company using a significant amount of borrowed funds and where the target company's equity value or potential cash flow is expected to be enough for a profit to be made for shareholders.

Liabilities

Financial obligations, such as company dividends and pension payments, or debts.

Limit Order

An order to buy or sell at a fixed price. A person can also place a limit order 'with discretion'. This enables the broker to buy or sell within a small range of prices.

Liquid Assets

Assets held as cash or which are easily convertible to cash, such as bank bills.

Liquidation

The sale of a company's assets with the intention of winding up its affairs and distributing the remaining cash to shareholders. Also, an offsetting trade that closes out any existing security position in the market.

Liquid Market

A market with a large number of buyers and sellers where trading can be accomplished with ease.

Listed Company

A company whose shares are accepted for trading on a registered exchange and are able to be bought and sold by members of the general public.

Listing Rules

The set of rules and conditions imposed by a stock exchange with which companies must comply to remain eligible to be listed companies on that exchange. These conditions might include minimum market capitalization and minimum number of shares outstanding.

Local

A futures trader in the pit of a commodity exchange who buys or sells for his own account and might execute trades for a broker.

Long

A trader who is 'long' the market is of the opinion that the price of a security will go up. The opposite of *Short*.

London Interbank Offered Rate (LIBOR)

The LIBOR is an indicator rate for international lending. Major international banks in London lend cash to each other at this interest rate.

[London International Financial Futures and Options Exchange \(LIFFE\)](#)

The LIFFE. As it is commonly known, offers a variety of futures products, as well as taking on the role of the the London Traded Options Market in 1992; hence its full abbreviation is LIFFE-LTOM.

Macro Economics

Economic analysis which studies the behaviour of the overall economy, including items such as inflation, the interaction of fiscal and monetary policies, GDP, and balance of payments. The opposite of *Microeconomics*.

Management Buy-in (MBI)

The purchase of a controlling interest in a business by an outside management team.

Management Buy-out (MBO)

The purchase of all outstanding shares in a business by its management team.

Margin

A good faith deposit required by an exchange or clearing house as collateral for an investment in securities purchased on credit.

Margin Call

Unfavourable movements in securities purchased on credit will result in a demand by a broker to an investor to put up money due to this decline in value. The exchange or clearing house calculates margins daily and requires prompt lodgement of sufficient collateral to maintain the required margin level and cover potential losses.

Market Capitalisation

The market price of a company, calculated by multiplying the share price by the number of shares outstanding. The market capitalisation of the share market is the sum of the value of listed shares.

Market Maker

An exchange member who provides market liquidity, making a market by buying and selling for his own account at publicly quoted prices.

Market-If-Touched

An order with the floor broker which becomes a market order if a trigger price is reached.

Market-on-close

A stock or options market order to buy or sell a security which is to be executed at the current market price as close as possible to the end of that day's trading.

Market Order

An order to buy or sell a security at the present market price. As long as there is a market for this security, the order will be filled. This type of order takes precedence over all other orders.

Mark-to-Market

Recording the price or value of a [security](#) on a daily basis, to calculate profits and losses or to confirm that [margin requirements](#) are being met.

Merger

The combining of two or more entities in a corporate restructuring, through a purchase acquisition or a pooling of interests. A merger is usually negotiated by the management of the two companies concerned. It differs from a consolidation in that a new entity is not created; and from a takeover in that negotiation occurs.

Microeconomics

Economic analysis that studies the behaviour of individual companies or markets and the impact of small economic units on the economy, such as consumers or households. The opposite of *Macroeconomics*.

Modeling

Involves the design and analysis of a mathematical representation of an economic system to investigate the effect of changes to system variables.

Modern Portfolio Theory (MPT)

Overall investment strategy that seeks to construct an optimal portfolio to enable investment managers to classify, estimate and control the sources of risk and return.

Monetary Policy

The regulation of the supply of money and interest rates, by actions of a country's central bank, to control inflation and stabilize the currency. A tightening of monetary policy by a Government could influence the economy as the scarcity of money usually means higher interest rates.

Money Market

The market for trade in short-term debt securities such as bills of exchange, promissory notes and government and semi-government bonds.

Money Supply

The total supply of money in circulation, held by members of the public and in bank deposits.

Naked Option

The writing of an option without ownership of the underlying asset.

NASDAQ Composite Index

A [market-value weighted index](#) of all [common stocks listed](#) on the U.S. NASDAQ exchange.

National Accounts

Annually released figures summarizing income and expenditure for various industry sectors and the economy as a whole.

National Savings

The total amount of savings of a country's households. It is income remaining after consumption.

Negative Gearing

Using borrowed funds for the purchase of an investment where the cost of borrowing exceeds the return obtained from the investment. The practice can have tax advantages for investors on a high marginal rate as negative net income can be offset against income gained from other sources. Negative gearing can apply in the case of borrowing to purchase shares or managed investments where the tax advantages and potential for long-term capital growth are an attractive combination.

Net

The figure remaining after all necessary deductions have been taken away. The opposite of *Gross*.

Net Asset Backing

The total shareholders' funds in a company (i.e. total assets less total liabilities) divided by the number of shares on issue.

Net Asset Value

The total assets of a company less the total liabilities (including intangible items like goodwill).

New Issue

Any security being offered to the public for the first time so a company can raise additional money for retiring debt, acquisitions or for working capital.

New York Stock Exchange (NYSE)

The oldest and largest [stock exchange](#) in the U.S., located on Wall Street in New York City.

Nikkei Dow Index

Japanese Share Price Index of leading 225 shares listed on the Tokyo Stock Exchange.

Noise

Fluctuations in the market which can confuse one's interpretation of market direction.

Novation

The process used by a futures clearing house to substitute one party in a contract with another when matching of buyers and sellers.

NYSE Composite Index

The [market-value weighted index](#) of all [stocks](#) on the New York Stock Exchange

NZSE30

The New Zealand Share Price Index of the leading thirty shares listed on the New Zealand Stock Exchange.

Offer

The lowest price that an investor or dealer is prepared to sell a given security.
The same as *Ask*.

Off Market

Refers to a transaction which takes place outside the formal market, such as the transfer of shares between parties without going through a broker. Such transactions are conducted through negotiation and executed with an "Australian Standard Transfer Form".

Open Interest

The net total number of futures or option contracts that have not yet been exercised, expired, or delivered.

Open Order

An order to buy or sell securities that has not been executed and which remains effective until it is executed, cancelled or changed to a different price.

Open Outcry

The method of public auction where all bids and offers are made verbally in trading rings or pits.

Option Buyer/Taker

The party who pays a premium to obtain the right to exercise a put or the call option. The party who sells them that right is the Option Writer.

Option Premium

The dollar amount per share that is paid by the option buyer to the seller (writer) for an option. The premium is determined by supply and demand, time left till expiry of the contract and volatility of the underlying share price.

Option Writer

The party who sells an option contract to another investor and receives premium income for doing so.

Option Clearing House (OCH)

This is the overseer of the options market. Its duties include matching option buyers and sellers and reviewing the financial situation of contract holders.

Ordinary Shares

The most commonly-traded security, which grants ownership in a company. Ordinary shareholders may receive payments in cash, called dividends, and capital appreciation if the company trades profitably. The ordinary shareholders have no preferential rights in the liquidation process if a company is wound up.

Out-of-the-Money

A call option whose strike price is higher than the current market price of the underlying security, or a put option whose strike price is below the current price of the underlying security.

Overbought

Market condition where prices have risen too steeply and too quickly and are in danger of reversing.

Oversold

Market condition where prices have declined too steeply and too quickly and are in danger of reversing.

Oversubscribed

Term used to describe a situation in which the buyers for a new share issue want more shares than the amount to be allocated.

Over-the-Counter Option (OTC Option)

An option which is 'tailor made' for a client by a financial institution. OTC options are bought and sold through negotiation and are not traded on a listed exchange.

Pooled Investments

Funds which are collected from a number of individual investors, pooled together and managed by professionals. Diversification and professional money management are the main benefits.

Portfolio

Investment holdings of an individual investor or organization usually composed of a mix of different asset classes of securities, such as shares, fixed interest and property. A share portfolio would include a mix of different sectors and stocks.

Portfolio Insurance

A strategy designed to protect a portfolio of stocks against market risk by selling index futures short or buying stock index put options for downside protection.

Preference Shares

Shares which provide a specific dividend that is paid before any dividends are paid to ordinary shareholders and which rank ahead of common shares in the event of a liquidation.

Premium

Describes any asset that is valued at more than the normal market price. The opposite of *Discount*. Also the price an investor pays the writer of an option.

Price/Earnings Ratio (P/E Ratio)

The market price of a company's shares divided by its *earnings per share* to determine its attractiveness and how expensive in relation to other companies.

Price Range

An index or share's highest price and lowest price reached during any specific day, week or year.

Primary Market

The market in which new securities are sold when first issued. The opposite of *Secondary Market*.

Prime Rate

The interest rate on bank loans set by commercial banks and charged to their most creditworthy borrowers.

Private Placement

The sale of securities directly to institutional investors as opposed to a public offering.

Private Sector

The part of a nation's economy owned/operated by corporations and individuals and not controlled by the government. The opposite of *Public Sector*.

Productivity

The level of efficiency, measured by output per unit of input of labour, capital, and equipment, with which goods or services are produced.

Program Trading

Computer-driven trades, entered directly from the traders computer to the market's computer system, based on signals from computer programs.

Promissory Note

A debt security issued and signed by a borrower, showing the amount which the borrower promises to repay to the note-holder on the loan's maturity.

Prospectus

A legal document offering securities for sale to the public and lodged and/or registered with the Australian Securities and Investments Commission. It must be made available to all interested investors in advance and contain financial and other information that could help individuals determine whether the investment is appropriate to him/her.

Proxy

A written authorization given by a shareholder to someone else so that the second person can act in place of the first. The person authorized to act is known as the proxy and is most commonly used to vote shares at a shareholder's meeting

Public Sector

The part of the economy concerned with providing basic government services such as health, education, transport and utilities. The opposite of *Private Sector*.

Put Call Ratio

The ratio of put trading volume divided by the call trading volume over a specific period of time.

Put Option

A contract which gives the purchaser the right, but not the obligation, to sell a certain quantity of an underlying security to the writer of the option, at a specific price within specified period of time.

Rate of Return

The annual income earned on an investment, in relation to the total amount invested, expressed as a percentage.

Real Interest Rate

The nominal interest rate minus the current rate of inflation.

Real Return

Rate of return that is inflation-adjusted.

Receiver

The person appointed, when a company is in receivership, to take charge of the affairs of a company until its debts are paid.

Receivership

A form of bankruptcy where a company has had a receiver appointed to administer it and can avoid liquidation by reorganising the company's activities.

Recession

A significant decline in the general economy of a nation. Sometimes measured by a decline over two consecutive quarters in a nation's GDP. Not of the same severity or duration as a depression.

Reflation

The intentional reversal of deflated prices to a desirable level through a monetary action by a government. At such times additional money is printed, adding to the supply of money in circulation.

Reserve Bank of Australia (RBA)

Australia's central bank. The RBA was established in 1959 when the central banking activities of the Commonwealth Bank of Australia were transferred to the new entity. The role of the RBA is both to maintain and implement the financial system of the government. It has responsibility for the banking system and authorized dealers, as well as overseeing the activities of Australia's financial markets.

Reserves

Funds set aside for emergencies or other future needs. Companies often retain a portion of profits rather than distribute 100% to shareholders. Also, superannuation funds keep reserves to cover declines in asset values or investment returns.

Resistance

A price level where a security's price stops rising and moves sideways or down. It indicates an abundance of supply. Because of this, the stock may have difficulty rising above this level. There are short term and longer term resistance levels. Opposite of *Support*.

Return On Assets

The net earnings of a company divided by its assets.

Return On Equity

The net earnings of a company divided by its equity.

Rights Issue

An offering of common stock made to a holder of an existing security which entitle them to purchase new issues by the same company at a discount to the existing market.

S&P 500

A market-weighted index of 500 leading U. S. companies, maintained by Standard & Poors (S&P). Considered to be a benchmark of the overall stock market as it is composed of industrial, utility, transportation, and financial companies.

Scalp

To trade for small gains. Scalping normally involves establishing and liquidating a position quickly, usually within the same day, hour or even just a few minutes.

Scrip

A certificate representing entitlement to a parcel of shares. Such certificates are no longer issued since the introduction of the *Clearing House Subregister System*.

Seasonally Adjusted

Figures or statistics, such as employment statistics, which are modified to take account of seasonal factors like the large number of graduating students entering the workforce at the end of each school year.

Secondary Market

A market available to trade securities after their *Initial Public Offering*, such as The Australian Stock Exchange (ASX). The opposite of *Primary Market*.

Sector

A group of securities that share similar characteristics, such as building materials, transport and engineering companies.

Short

A trader who is short the market is of the opinion that the price of a security or securities will go down, and has more sold than bought positions. See also *Short Selling*.

Selling Short

The strategy of selling a security you do not already own in the belief that the price will fall and the security can be bought back at a lower price.

Short Interest

Shares that have been sold short and not yet repurchased.

Short Interest Ratio

A ratio which tells how many days it would take to buy back all the shares which have been sold short. A short interest ratio of 2 would indicate that it would take 2 trading days to buy back all the shares which have been sold short. This is based on the current volume.

Slippage

The difference between estimated and actual transaction costs. The difference is usually comprised of commissions and price differences.

Split

An increase in the number of outstanding shares in a company, with the market price dropping proportionately. An example would be a four for one split of a \$40 share into four times as many shares each valued at \$10. The usual purpose of a split is to make a stock with a high per-share price more accessible to smaller investors.

Spread

The difference between the current bid price and the current ask (offering) price. Also, the purchase of one option and the sale of a related option.

Stag

A subscriber to new share issues who immediately sells once the shares are trading on the exchange. This investor realizes a quick gain if the shares trade at a premium to the issue price paid.

Stop Order

An order placed with a broker which is not at the current market price. It becomes a market order once the security touches the specified price. Buy stop orders are placed above the present market price. Sell stop orders are placed below the present market price.

SEATS (Stock Exchange Automated Trading System)

The screen-trading system of the Australian Stock Exchange.

Support

A price level at which declining prices stop falling and move sideways or upward. It is a price level where there is sufficient demand to stop the price from falling.

Supply-side Economics

An economic theory, which holds that reducing tax rates to businesses and wealthy individuals will stimulate savings and [investment](#) for the benefit of everyone. The good effects from the tax reductions will trickle-down through the economy.

Surplus

The extent to which revenue or income exceeds expenditure. The opposite of *Deficit*.

Swap

An exchange of streams of payments in an interest rate, currency or equity exchange transaction. The most common swap is an interest rate swap, where one party is obliged to pay a fixed interest rate to the other party in return for a floating interest rate.

Swaption

An option on a swap, such as the option to enter into an interest rate swap transaction at a future date.

Switching Facility

The ability to move money from one fund to another or between components of a unit trust.

Sydney Overnight Computerised Market (Sycom)

The after-hours screen dealing system operated by the Sydney Futures Exchange.

Sydney Futures Exchange (SFE)

Australia's primary market in commodity and financial futures. It effectively began as the Sydney Greasy Wool Futures Exchange in 1960 and took on its current name in 1972.

Takeover

Acquiring control of a company by purchasing shares so as to gain a controlling interest. A takeover could be hostile or friendly.

Technical Analysis

Analysis of a security which looks at the technicals-the charting patterns and technical indicators-to form an opinion about historical and future price trends.

Theoretical Value

The theoretical value of an option is generated by a mathematical model. The model uses prevailing interest rates, characteristics of the underlying security, and certain assumptions about the terms of the option to arrive at the theoretical value.

Tiger Economies

A term for Asian economies that have achieved rapid growth and industrialization, such as Hong Kong and Singapore.

Time value

The portion of the option premium that is attributable to the amount of time remaining until the expiration of the option contract. Time value is whatever value the option has in addition to its intrinsic value.

Top-down Forecasting

An investment strategy which begins with forecasting broad macro economic trends, assessing their impact on industries and then searches for the best companies within the most favourable industries. The opposite of *Bottom-up Analysis*.

Tokyo Price Index (Topix)

The Japanese share price index of leading companies listed on the Tokyo Stock Exchange and a broader market index than the Nikkei Dow Index.

Tracking Error

The amount by which the performance of an actual portfolio differs from that of the benchmark representative market index.

Trade-Weighted Index (TWI)

A weighted index that measures the value of Australia's currency in relation to those of its major trading partners. The weighting takes into account the volume of trade conducted between Australia and the countries concerned.

Trend

The general direction of price movements over a period of time.

Turnover

For investment portfolios, this is the rate at which securities within a portfolio are exchanged for other securities of the same class. For financial markets it is the level of trading that occurs.

Underlying

The security, commodity, or cash index to be delivered in the event an option is exercised.

Underperformance

The term used to define an investment that returns less than a benchmark or other measure of similar investments.

Undervalued

A security or currency whose price is below its perceived value.

Underweight

Refers to a portfolio that has less exposure to a particular sector, compared with a neutral or benchmark position.

Underwriter

An intermediary, such as a broker or bank, which arranges the sale of an issue of securities to the investing public. If any stock fails to be placed with institutions or investors, the intermediary undertakes to purchase the unsold securities, ensuring the company of raising of the full amount of money it is seeking.

Unfranked Dividends

Dividends distributed to investors on which no tax has been paid by the company. They are subject to tax at the recipients normal marginal rate.

Unsecured Creditor

A person or organization who has lent money without obtaining collateral, so that repayment is dependent solely on the borrower's ability and willingness to repay.

Utility

The statutory authorities responsible for providing services to the community such as gas, electricity, and water.

Value Investing

An investment style which seeks to buy shares when they are underpriced and to take profits when they appear overvalued.

Venture Capital

Funds used for startup businesses with exceptional growth potential, which are subject to more than a normal degree of risk. Management and technical expertise are sometimes provided.

Vertical Integration

An acquisition in which a company operating in one market acquires another company which is complementary to its existing business but which operates in another market. The opposite of *Horizontal Integration*.

Volatility

The measurement of how much a security fluctuates over a period of time.

Volume

The total number of securities traded during a given period.

Wall Street

The name for the financial district in New York City and the street where two Exchanges and many banks and brokerage firms are located.

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Warrant

A security similar to an option but usually with a longer term till expiry. A stock warrant allows a trader to purchase shares at a fixed price for a certain period of time.

Wasting Asset

An asset, such as an option, which declines in value over time because its time value will decay until expiry.

Weighting

Specification measuring the relative importance of items when combined, such as the percentage of a portfolio or index that a given share represents.

White Knight

A friendly party in a takeover who acquires the company to avoid a hostile takeover by an undesirable black knight.

Yield

The annual rate of return on an investment expressed as a percentage.

Yield Curve

A curve that shows the relationship between fixed interest investments at a given point in time. A *normal* yield curve would show higher interest rates for long-term investment, while a *negative* or *inverted* curve indicates higher short-term rates.

Yield to Maturity

The yield that would be realized on a fixed income security provided it is held to its maturity date, including interest payments and capital gains or losses.

Zero Coupon Bonds

Bonds which are issued at a significant discount to their face value at maturity and pays no interest during the life of the bond.



In his mentoring-style '[Investing and Online Trading](#)' Newsletter Jim Berg shows his Members how he trades and invests in the stock market, including WHICH stocks to buy and WHEN to buy and sell.

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