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To all

INVESTORS

This book is a collection of basic investment terminologies usually use by Analyst/Professionals on TV and Radio, in Books and in trade Journals and Seminars. These are words which are essential in the investment world but it is just that the average investing individual seems not to be able to fully comprehend them. It is not just a collection of terminologies, it explains these terms in a language that everybody will understand.

This book is written for those who have decided to prepare for the future via various forms of investment. It is for the guys who have decided to make it big in life. It is for the average individual who does not have the opportunity go to a business school for an MBA or Banking and Finance.

This books attempts to give an average individual insight in to the language of the investment world. It is written in my preferred style - open, free-flowing and conversational.

I hope that by the time you finished digesting this book, your knowledge, flow and efficiency in the investment world would have increased.

Enjoy.

Akinrelere Idowu Tolulope

1. **Actively managed mutual fund**

   A mutual fund whose managers buy securities intending to do better than the average, represented by an index of that market. Opposite of a passively managed index fund.

2. **Annuity**

   A tax-deferred investment offered by an insurance company. When you receive an annuity, you receive payments in equal installments for a specified period of time.

3. **Arbitrage**

   Selling one security in one market and buying it in another market, or vice versa, to take advantage of price disparity.

4. **Asset allocation**

   How your money is spread across different types of investments, like stocks, bonds, and cash equivalents.

5. **Balance sheet**

   A statement of a company's assets and liabilities at a certain time.

6. **Bear market**

   A period when securities have become relatively low-priced. With stocks, a decline of 20% or more is considered a bear market. A decline of 10% to 20%, a correction.

7. Beta

A measure of volatility that compares a security's volatility with the volatility of an index of the same securities. The market, or an index of the market, is assigned a beta of 1.00; a stock or a fund with a beta of 1.25 might be 25% more volatile.

8. Bond

A fixed-income investment that typically pays the lender regular interest, and promises to repay the lender the principal after a specified period of time ("maturity").

10. Book value

A company's total assets minus liabilities minus stock issues that are ahead of common stock (like preferred stock) in case the company is liquidated and shareholders are compensated. Book value can be more, or less, than market value—the price of the stock times the number of shares outstanding.

11. Bull market

A period when security prices have soared.

12. Capital gains (losses)

Profits or losses on an investment.

13. Capitalization

The total value of all the securities—stocks, bonds—issued by a corporation.

14. Cash flow

A company's income, after taxes, plus expenses that have to be paid-depreciation expenses, amortization expenses, and so forth.

15. Closed-end investment company

A mutual fund whose shares are bought and sold on an exchange or over-the-counter by investors trading among themselves. Only a limited number of shares are issued. Managers of closed-end funds need not sell; shareholders buy and sell among themselves.

16. Common stock

A unit of ownership of a company. Owners of preferred stock have first dibs in getting their money back in case of bankruptcy.

17. Contrarian

An investor who does not follow the majority opinion, perhaps buying stocks or a stock when most people are selling, for example, or selling when most people are buying. Contrarians are a species of value investor.

18. Cost averaging

Investing a set amount of money into securities at a set period of time, not all at once. With the purpose to buy more shares when prices are low, fewer when prices are high.

19. Current asset

Cash, or whatever can be converted into cash, within one year.

20. Current ratio

A company's assets divided by its liabilities. A measure of how readily a corporation can pay its debts from its assets.

21. Data mining

Checking information to find patterns.

22. Discount

When a security sells for less than its face value.

23. Diversification

Investing in a variety of different securities and assets, to guard against one's entire portfolio bottoming at one time.

24. Dividend

A distribution of earnings to shareholders.

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25. Efficient Market Theory

The notion that market prices reflect the full knowledge and expectations of all investors, so that it is impossible for investors to outperform the market unless they take more risk. (See Nutty Investment Theory.)

26. Float

Someone's ability to use money for a time before having to give it to someone else.

27. GARP

Growth at a reasonable price. A strategy of growth investors, attempting to buy growing companies but not overpaying.

28. Goodwill

Valuable and important attributes of a company, but hard to measure, such as its brand-name recognition, its reputation for integrity, the excellence of its personnel, its penetration of its markets. It's the difference between the value of the assets a company owns (buildings) and what a reasonable buyer might pay for the entire company. Also called "intangibles."

29. Growth strategy

Investing in healthy companies, with relatively high price-earnings ratios and high price-book ratios. Growth stocks tend to do well at different periods of times from value stocks. Certain industries, like health care and technology, tend to be composed of growth stocks. Growth portfolios tend to have higher turnovers than value portfolios. Growth stocks are sometimes called “glamour stocks.” A growth strategy may be “momentum” or “GARP.”

30. Holding company

A corporation that owns stock and manages other corporations.

31. Index

Selected stocks or bonds that are meant to mirror an entire investment market.

32. Index fund

A fund whose performance is tied to a specific market index, such as the Standard & Poor's 500 Stock Index.

33. Initial public offering (IPO)

The first sale of a new stock or bond.

34. Intrinsic value

The essential value of a stock. If you package 10 stocks together in one unit, like a closed-end fund, and sell that unit, and someone buys it for less than the individual stocks are worth, the unit is selling at a discount to its intrinsic value. The intrinsic value of a stock is difficult to measure, but clues are its potential to continue to produce profits and what reasonable buyers have paid for similar companies.

35. Leverage

Buying stocks or other securities by borrowing money.

36. Liquidity

The ease with which an asset can be turned into cash without loss.

37. Margin of safety

In security analysis, buying a security for significantly less than its intrinsic value, just to protect the buyer in case of unexpected problems.

38. Market value

The price that an investment instrument can fetch on the open financial markets.

39. Momentum investing

Buying stocks whose prices have recently been climbing.

40. Multiple

Price-earnings ratio.

41. Nutty Investor Theory

The notion that market prices reflect neurotic human emotions, particularly the tendency to overvalue stocks when their prices have climbed and to undervalue stocks when their prices have declined.

42. Operating earnings

The difference between a corporation's revenues, and its expenses.

43. Passively managed mutual fund

A mutual fund that mirrors an index.

44. Preferred stock

A class of stock that gives the owner a higher claim to dividends and to assets in the event of the company's liquidation.

45. Present value

The value today of a future amount after it has been discounted for interest that you did not receive.

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46. Price to book ratio

The share price of a stock divided by its net worth (book value) per share. An indicator of whether a stock is expensive or not.

47. Price to earnings ratio

The amount that investors are willing to pay for A unit (e.g.#1) of earnings per share. Commonly, the earnings are for the past year. The higher the p-e ratio, by and large, the more optimistic investors are about a stock's growth—except that the p-e ratios of stocks whose earnings have fallen recently may remain high.

48. Qualitative analysis

Assessing a stock by focusing on non-measurable factors, such as the quality of management, excellence of the product or service, resistance to competition, brand-name recognition.

49. Quantitative analysis

A way to evaluate a company's stock using numbers; contrasted with qualitative analysis.

50. Quick ratio

Cash, receivables, and marketable securities divided by liabilities; a measure of liquidity.

51. R-squared

How much the changes in one factor (variable) are explained by the changes in another factor. Called coefficient of determination. It ranges from 1 (percent congruence) to 0 (no connection).

52. Return on equity

Amount earned on a corporation's common stock investments over a certain time period. The percentage indicates how well shareholders' money is being used.

53. Risk

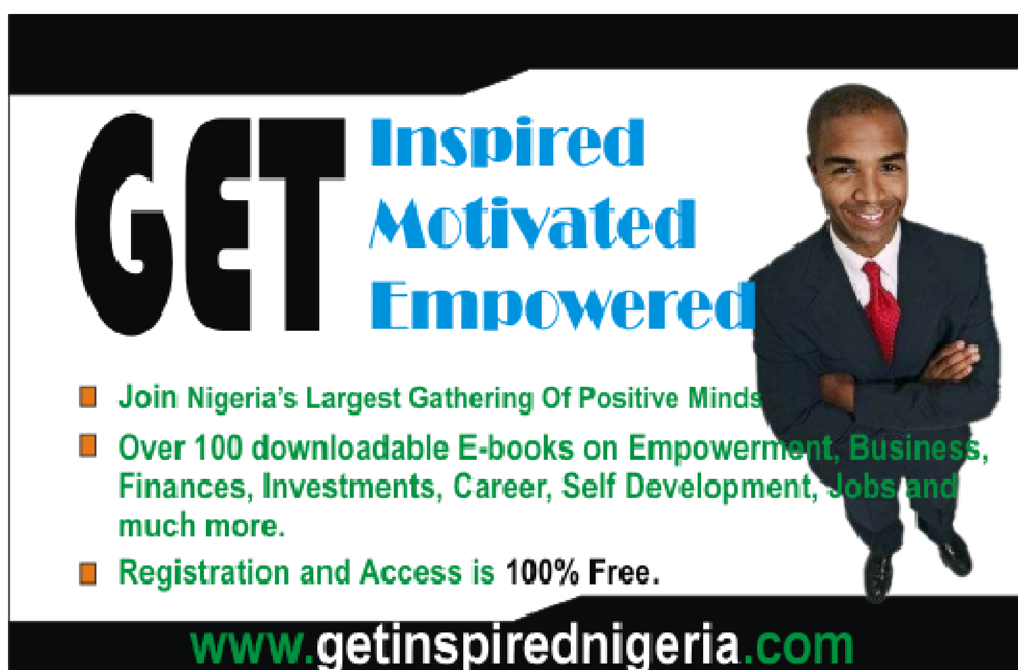
The chances of losing value, or not gaining value. Different kinds of risks include market risk, economic risk, and inflation risk.

54. Security

A stock, bond, or other investment instrument.

55. Security and Exchange Commission (SEC)

The federal agency that administers the laws regulating the securities industry.



56. Selling short

Selling securities that you may have borrowed, intending to pay for them when (you hope) their prices have gone down. A way to make money on securities whose prices seem poised to decline.

57. Standard & Poor's 500 Stock Price Index

An index of 500 stocks, mostly large company stocks traded on the New York Stock Exchange.

58. Standard deviation

The volatility of an investment, measured by comparing its average price with the degree of its ups and downs over three years.

59. Tangible book value

Book value that does not consider good will, which is difficult to evaluate.

60. Total return

The interest from bonds, dividends from stocks, and capital gains and losses that a security receives in a specific period of time.

61. Turnover

Trading activity—the frequency with which new securities are bought and old ones sold.

62. Value strategy

Buying stocks that seem to be cheap, based on their price-earnings ratios and price-book ratios. Value stocks may be those of companies in trouble, or companies that don't promise to growth rapidly, such as utilities. Value stocks tend to excel or decline at different periods from growth stocks. Value stocks tend to have higher dividends than growth stocks, and value stock portfolios tend to have lower turnovers.

63. Volatility

The degree to which a security's price bobs up and down.

64. Working capital

The amount that current assets exceed current liabilities.

65. Yield

The income that a security pays out in a year, as a percentage of the security's price.

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