

# Trading terms

## Commodity

An article of trade or commerce, especially an agricultural or mining product, that is easily traded, can be physically delivered, and can be stored for a reasonable period of time.  
Equity - Stock or any other security representing an ownership interest.

## ETF (Exchange Traded Fund)

A security that tracks an index, market sector, commodity, or other proprietary grouping of stocks. An ETF represents a basket of stocks like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold.

## Fixed Income

This term refers to any type of investment that yields a regular (or fixed) return, including bonds and preferred stocks.

## Hedge Fund

An aggressively managed portfolio of investments that uses advanced investment strategies with the goal of generating high returns. These private investment partnerships are open to a limited number of investors with a large initial investment. Hedge funds are usually more risk-seeking than mutual funds.

## Index

A number that is adjusted at set intervals to describe relative changes in the quantity of goods, services, or levels of activity.

## Liquidity

An asset's ability to be easily converted into cash in the marketplace without causing a significant movement in the price and with minimum loss of value.

## Market Maker

An individual or an organization who quotes a two-sided market in a financial instrument or commodity, usually hoping to profit from the bid/ask spread, rather than through speculation.

## Mutual Fund

A form of collective investment that pools money from many investors and invests that money in stocks, bonds, and other securities. A fund manager trades the securities and net asset value (NAV) is calculated daily based on the total value of the fund.

## Option

A contract allowing the buyer the right, but not obligation, to buy (call) or sell (put) a specified stock, commodity, or cash index at a predetermined strike price on or before a specified date.

## Proprietary Trading Entities

Institutions that actively trade a variety of financial instruments using their own money, as opposed to customers' or investors' capital. They, like hedge funds, may be more risk-seeking than mutual funds.

## Volatility

A measurement of the change in price over a given period; often expressed as a percentage and computed as the annualized standard deviation of the percentage change in daily price.

# Banking terms

### **Discounted Cash Flow**

A method of estimating an investment's current value based on the discounting of projected future revenues and costs (From Wallstreet Words).

### **Due Diligence**

An investigation or audit of a potential investment. Due diligence serves to confirm all material facts in regards to a sale (From Investopedia).

### **IPO**

Initial Public Offering; first sale of stock by a company to the public.

Leveraged Buyout - Acquisition strategy utilizing a target company's asset value to finance the debt incurred in purchasing the company.

### **M&A**

Mergers and Acquisitions; consolidation of companies either through combining two entities to form a new group (merger) or one entity overtaking another without the formation of a new group (acquisition).

### **PIPE**

Private Investment in Public Equity; issuing private securities for a publicly traded company. Underwriting - The process through which investment bankers raise investment capital from investors for corporations and governments that are issuing debt or equity securities (From Investopedia).

### **Valuation**

The process of determining the current worth of an asset or liability.

## **Private equity and venture capital terms**

### **Angel Investor**

Affluent individual who provides personal seed money for a business start-up, usually in exchange for ownership equity.

### **EBITDA**

Earnings before interest, taxes, depreciation, and amortization; an indicator of a company's financial performance approximating cash flow, which can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

### **Exit Strategy**

A fund's intended method for liquidating its holdings while achieving the maximum possible return. These strategies depend on the exit climates including market conditions and industry trends. Exit strategies can include selling or distributing the portfolio company's shares after an initial public offering (IPO), a sale of the Portfolio Company, or a recapitalization (From VentureGlobe).

Growth Equity - Later stage investing in high-growth companies that may or may not be profitable but do have established commercial revenue.

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### **Mezzanine Financing**

Late stage of venture financing for a company, usually the final round of financing prior to an IPO. Investors entering in this round have lower risk of loss than those investors who have invested in an earlier round. Mezzanine level financing can take the structure of preferred stock, convertible bonds, or subordinated debt (From VentureGlobe).

### **Recapitalization**

A revision of a corporation's capital structure by an exchange of securities, usually involving cashing out some existing investors.

### **Venture Capital**

Early-stage investment in innovative companies that can be pre- or post-product development but usually do not have solid commercial acceptance yet.

## **Research terms**

### **Buy side**

The side of Wall Street comprising the investing institutions such as mutual funds, pension funds, and insurance firms that tend to buy large portions of securities for money-management purposes. Buy side analysts provide research and recommendations exclusively for the benefit of the company's own money managers (from Investopedia).

### **Dividend Payout Ratio**

A measure of the percentage of earnings paid out in dividends, computed by dividing cash dividends by the net income available to each class of stock.

### **Dividend Yield**

A stock's market value in relationship to its dividend amount, expressed as a percentage. It's calculated by dividing the annual Dividend per share by the current Market Price.

### **Earnings per Share (EPS)**

Total earnings for a given period divided by the number of shares outstanding for that same period. EPS represents the portion of a company's earnings, net of taxes, and preferred stock dividends that is allocated to each share of common stock.

### **Market Capitalization**

An estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share.

### **Price to Book Ratio (P/B)**

The ratio of the market value of the equity to the book value of equity. The higher the ratio, the higher the premium the market is willing to pay for the company above its hard assets (from Investorwords).

### **Price to Earnings Ratio (P/E)**

The most common measure of how expensive a stock is. P/E represents the ratio of the market price of a common stock to its earnings per share.

### **Projected Earning Growth Ratio (PEG)**

PEG is a valuation metric for determining the relative trade-off between the price of a stock, the company's EPS, and its expected future growth. In general, a lower PEG is considered a better value.

### **Pro Forma**

A hypothetical balance sheet and income statement based on a set of assumptions which is used in earnings reports. It's an estimate of how the business will turn out if certain assumptions are achieved.

#### **Price to Sales Ratio (P/S)**

The ratio for valuing a stock relative to its own past performance, other companies, or the market itself. Price to sales is calculated by dividing a stock's current price by its revenue per share for the trailing 12 months (from Investopedia).

#### **Return on Equity (ROE)**

The rate of investment return a company earns on stockholders' equity calculated by dividing net earnings by average stockholders' equity. ROE is an indicator of profitability.

#### **Return on Invested Capital (ROI)**

The amount, expressed as a percentage, that is earned on a company's total capital calculated by dividing the total capital into earnings before interest, taxes, or dividends are paid.

#### **Sell Side**

The portion of the securities business in which orders are transacted. Sell side analysts provide research and recommendations to retail and institutional clients.