

Terminology for Stockbroking

While we make every effort to be free of jargon, some technical financial terms are inevitable. The following are some commonly used terms, along with their meaning:

“A” shares

This is a particular class of ordinary shares with some specific voting rights. Companies are free to issue shares classed as A, B, C and so on.

ADR

American Depository Receipt – This is a mechanism used by overseas investors to have a financial interest in shares which they cannot buy directly. The ADR is structured to reflect upward or downward movement in the share value.

Adjusted EPS

Adjusted Earnings Per Share takes into account the fully diluted earnings of a share. This excludes elements such as goodwill, amortisation and exceptional items (net of tax) and this form of expressing the earnings of a share gives investors a better view of their underlying performance.

AIM (Alternative Investment Market)

UK trading market for smaller companies looking to raise finance.

Amortisation

This is similar to depreciation (for tangible assets) and reflects any deduction in value of an intangible asset or a lease.

Asset Value

The difference between total assets (property, stock, cash etc.) of a company, less total liabilities in the balance sheet (loans, creditors, overdrafts etc.), less total prior capital (debentures, loan stocks, preference shares etc.).

Bargain

Any sale or purchase made on the stock exchange, often referred to as a contract.

Bear Market

A market in which prices are falling and there is an expectation that they will continue to do so in the short to medium term.

Best Price

Instruction to buy an investment for the best price available at the time of the instruction, as opposed to a specific price. Sometimes referred to as Market Price.

Blue chip companies

Companies that are perceived as solid and reliable, and which represent a safer investment.

Bonds

A form of investment usually issued by the government, which typically guarantees regular payment of interest and repayment of capital at some specified maturity date. Can also be issued by corporations.

Bubble

A situation in which share prices seem to be rising on sentiment rather than as a result of their fundamental value.

Bull market

A market in which prices are rising and there is an expectation that they will continue to do so in the short to medium term.

Call

Money due when a company offers its existing shareholders a Rights Issue (shares at a reduced price).

Capitalisation

Refers to the ‘Market Capitalisation’ of the company - the number of shares in issue multiplied by the current share price, used to describe how big a company is.

Capital Gain

The increase in price of an asset or investment over and above the original purchase price, without reference to any income from the asset or investment.

Capital Gains Tax (CGT)

A tax payable on the Capital Gain achieved through sales of assets in a particular year.

Capital Acquisitions Tax (CAT)

A tax payable on windfalls such as an inheritance or a gift, payable at a rate of 20%.

CFD's (Contracts for Difference)

Investors trade shares by means of CFD's without having to pay the full price of owning the stock. Investors can also profit by selling in anticipation of an expected fall in value - something you can't easily do with normal share trading.

Closing Price

The final quoted buyers' and sellers' price at the end of each day's trading session.

Contract Note

Confirmation in writing of sale/ purchase of an investment, usually issued immediately after the sale/ purchase is completed.

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Custodian

Usually a bank or other financial institution which is entrusted with holding stocks or other investments on behalf of third parties.

Debenture

Issue of loan capital repayable at a specified date or dates.

Debt/Equity

The net debt in percentage terms of shareholders' funds.

Demerger

This process involves the splitting of a company into two or more separate companies. The existing shareholders then have shares in both companies.

Derivative

An investment instrument that is derived from securities, currencies, commodities, or even an index or indicator representing any of these. The price of which will mirror movement in the price of the base instrument or index.

Dividend

A cash distribution to shareholders from company profits, usually payable twice yearly.

Dividend Yield

Dividend per share expressed as a percentage of the share price.

EBIT

Earnings Before Interest and Tax.

EBITDA

Earnings Before Interest, Tax, Depreciation, Amortisation and any other exceptional items.

Effective Tax Rate

Tax (adjusted for exceptional items) as a percentage of profits before tax (adjusted for exceptional items).

EGM

Extraordinary General Meeting, i.e. a meeting called outside of the annual general meeting of a company.

Enterprise Value

Total of market capitalisation plus net debt plus preference shares.

EPS

Earnings Per Share, i.e. earnings of a company divided by total number of ordinary shares.

Equities

Shares or stocks.

ESOP

Employee Share Ownership Scheme.

Ex Dividend

Before announcing dividends, companies set a date on which shares will be sold without entitlement to the dividend.

Ex Rights

A situation in which the purchaser of the security is not entitled to the rights issue.

Ex Scrip

A situation in which the security is priced without the right to the scrip issue.

Futures

An investment instrument involving a contract to trade a particular commodity, currency or security for delivery at a fixed date in the future at a fixed price.

Flotation

The issuing of a company's shares to the public for the first time on a stock market. Also referred to as an IPO (initial public offering).

Free Cash Flow

Operating cashflow less payments to providers of finance, taxation, capital expenditures and non-operating, non-cash items.

FTSE 100

The index of the U.K.'s top 100 companies by 'Market Capitalisation', usually consisting of 'Blue Chips'.

Gearing

Used to describe the level of a company's debt as a percentage of its equity capital.

Illiquid

A stock which is not actively traded and is therefore difficult to convert to cash.

Inflation

Percentage rise in prices over a set period in an economy.

Interest Cover

EBIT as a ratio over the net interest expense.

Limit

An instruction to a broker which restricts the price at which a transaction may take place.

Listed company

A company whose shares comply with an Exchange's listing requirements.

ISEQ

The Irish Stock Exchange.

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Mutual Fund

The U.S. equivalent to unit trusts, allowing investors to pool their money for investment purposes using the expertise of a professional fund manager.

NAV

Net Asset Value.

Net Debt

Total of short term and long term debt less net cash.

New Issues

Shares issued on a stock exchange for the first time.

Operating Profit

The profit on ordinary activities excluding goodwill amortisation.

Operating Cash Flow

Operating profit adjusted for non-cash items relating to operating activities.

Operating Margin

Operating profit divided by group turnover.

Option

An option is the right (but not the obligation) to buy or sell an investment at a predetermined price on a predetermined date.

P/E (Price/Earnings Ratio)

The current share price divided by the last published earnings per share, where earnings per share is net profit divided by the number of ordinary shares.

Penny Share

A low value share in a company that doesn't have a significant operating history and has limited tangible assets.

PBT

Profit Before Tax.

Portfolio

The 'basket' of investments held by an investor, usually made up of a mix of shares, bonds, property and cash (deposits).

Private Placing

The placing of new or existing shares in a limited or public limited company, usually with a pre-selected individual or institution or group of individuals and not generally available to the public.

Prospectus

A document issued by, or on behalf of, a company when looking to invite potential investors to buy shares. They're most commonly used during a flotation.

Registrar

Person (normally a bank) responsible for holding a register of shareholders (members) and issuing certificates for individual quoted companies.

Scrip Dividend

A dividend that is automatically paid as an issue of new shares in lieu of cash.

Scrip Issue

Issue of free shares to shareholders of a company by capitalising the company's reserves.

Selling Short

Sell a security which one does not hold in the hope of buying it back at a lower price at some future date.

Share

The risk-sharing part of a company's capital; also known as stocks or equities.

Share Split

When the share price of a company's shares has become too large, due to the growth of its value, it is sometimes decided to issue additional shares, to lower the price, so that they become more manageable and liquid.

Spread

The difference between the buying and selling price of a share, i.e. the bid-offer spread.

Stag

An investor who applies for a new issue in the hope of making a profit as soon as dealing in the shares begins.

Stamp duty

A government tax on the purchase of shares.

Unit Trust

A trust which has been formed to manage securities on behalf of a number of small investors. The trustee is usually a major bank and is the legal holder of the securities.

Valuation

A summary of the values and costs of an investment portfolio on any given date.

Warrant

Securities issued by a company which confer the right to buy shares at a specified price on a specified future date. The warrants are tradable and their value reflects the value of the share in question.

Yield

The rate of income from an investment expressed as an annualised percentage, based on its current capital value.