

How Many of the 110 Terms Do You Know?

The Language of Common Stock Investing

As a beginning common stock investor, what terms should you know or become familiar with as part of your efforts to learn more about investing? Wall Street and the financial media toss around so many investment terms and anachronisms that the challenge of learning the language of common stock investing can appear to be much more difficult than it really is. Many of these terms are highly technical in nature and refer to things the average individual doesn't really need to know or do to be a successful investor. Here's a glossary of

basic terms compiled by the editors of *Better Investing*, utilizing *The New York Times Dictionary of Money and Investing*, in an attempt to help simplify that challenge. The accompanying insert (*next two pages*) contains 75 of the most basic terms to common stock investing, presented as a separate tear-out sheet that can be used as a reference in further studies. Complementing this list are 35 additional terms presented below and on page 19 to help further expand the vocabulary of beginning investors. Review the terms. How many of the 110 do you know?

A

Accounts Payable - Money owed by a company to its suppliers.

Accounts Receivable - Money owed to a company by its customers.

American Stock Exchange (AMEX) - Stock exchange with the third-highest volume of trading in the United States, located in New York. The bulk of trading on AMEX is in index options (computer technology index, institutional index, major-market index), but shares of small- to medium-sized companies are also traded there. The exchange was founded as an alternative to the NYSE. In 1998 the AMEX merged with the National Association of Securities Dealers (NASD). Under the merger the NASD assumes the role of parent company, with AMEX operating as an independent entity within the larger NASD family of companies. www.amex.com.

AMEX - See *American Stock Exchange*.

Asset Turnover - The ratio of a company's net sales to its total assets.

Auction Market - Market in which the prevailing price of a security is determined through the free interaction of prospective buyers and sellers, as on the floor of the New York Stock Exchange. The Nasdaq market, by contrast, is a dealer market, meaning that intermediaries, called market makers, act on behalf of investors, executing their trades and often increasing investors' costs of trading.

Benchmark - A predetermined set of securities whose performance is used for comparison purposes by professional money managers or individual investors. Such sets may be based on published indexes such as the S&P 500 Composite index or may be customized to suit a particular investment strategy.

Big Board - A nickname for the New York Stock Exchange (NYSE), where approximately 3,000 common and preferred stocks are traded. Founded in 1792, the NYSE is the oldest exchange in the United States and the largest. It is located at the corner of Broad and Wall streets in Manhattan. See *New York Stock Exchange*.

Business Cycle - Repetitive cycle of economic expansion and contraction, also known as boom and bust. The official peaks and troughs of the U.S. cycle are determined by the National Bureau of Economic Research in Cambridge, Mass. www.nber.org.

C

Cash Flow - In investments, cash flow represents earnings before depreciation and amortization, known as noncash charges. Sometimes called cash earnings. Cash flow from operations (called funds from operations by real estate and other investment trusts) is important because it indicates the ability to fund ongoing operations and pay dividends.

Cost of Goods Sold - The total cost of buying raw materials and paying for all the factors that go into producing finished goods.

Current Assets - Value of cash, accounts receivable, inventories, marketable securities and other cash assets that can be converted to cash in less than one year.

Current Liabilities - Amount a company owes for salaries, interest, accounts payable and other debts due within one year.

Current Ratio - Indicator of a company's short-term debt-paying ability. Determined by dividing current assets by current liabilities. The higher the ratio, the more liquid the company.

Cyclical Stock - Stock that tends to rise quickly when the economy turns up and that falls quickly when the economy turns down. Examples are shares of housing, automobile and paper companies.

E

Earnings Before Taxes - A measure of the income before taxes made by a company during a specified period; used by investors as a measure of that portion of earnings over which management has more control. A related measure is earnings before interest, taxes, depreciation and amortization (EBITDA).

EDGAR - The Securities and Exchange Commission (SEC) uses Electronic Data Gathering and Retrieval (EDGAR) to transmit company docu-

ments such as annual reports (10-Ks), quarterly reports (10-Qs), and other SEC filings to investors. www.sec.gov.

F

Form 403(b)(7) - A tax-deferred annuity that is the equivalent of a 401(k) plan for nonprofit entities. Available to employees of educational institutions, churches and other employers organized for charitable pursuits. Employees are allowed to contribute up to 20 percent of their salary annually.

L

Large-Cap - A stock with a high level of capitalization, usually at least \$5 billion in market value. NAIC guideline: \$5 billion or more in revenues.

M

Management's Discussion and Analysis (MD&A) - A report from management to shareholders that accompanies the firm's financial statements in the annual report. It explains the period's financial results and allows management to discuss topics that may not be apparent in the financial statements in the annual report.

Market Index - Market measure that consists of a list of companies representing a wide variety of industries and therefore the overall market. The S&P 500 is a relatively broad market index that includes shares in 500 diverse companies. An even broader index is the Wilshire 5000, which consists of most publicly traded companies.

Market Timing - Asset allocation in which investment in the equity market is increased if one forecasts that the equity market will outperform Treasury bills and is decreased when the market is anticipated to underperform.

Mid-Cap - A stock with \$1 billion to \$5 billion in market value. NAIC guideline: \$500 million to \$5 billion in revenues.

N

Nasdaq Stock Market - The first electronic stock market, listing more than 4,000 companies; it is an acronym for National Association of Securities

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Dealers Automated Quotation System. The Nasdaq stock market comprises two separate markets: the Nasdaq National Market, which trades large, active securities, and the Nasdaq Bulletin Board, which lists young companies or those whose shares are trading for less than \$1. www.nasdaq.com.

New York Stock Exchange (NYSE) - Also known as the Big Board or The Exchange, it is the nation's oldest stock exchange, founded in 1792. The Exchange is also a self-regulatory organization that oversees its members and ensures that they abide by its rules. The exchange has stringent requirements that companies must meet before their shares can be traded there: They must have 2,000 shareholders or more, average monthly trading volume of 100,000 shares and stock market value of \$100 million or more. More than 3,000 companies are currently listed on the exchange. The Big Board is located at Broad and Wall Streets in New York City. www.nyse.com.

O

Operating Profit (or Loss) - Revenue from a firm's regular activities less costs and expenses and before such deductions as taxes or depreciation.

Over the Counter (OTC) - With respect to equities, OTC refers to Nasdaq, a decentralized electronic market, not an exchange market, through which geographically dispersed dealers are linked by telephones and computer screens. The market is for securities not listed on a stock or bond exchange

and usually consists of newer or smaller companies than those on an exchange. The Nasdaq is also known as a dealer market rather than an auction market as the NYSE or AMEX are. In general, OTC trading takes place in many assets, such as bonds and options. OTC usually means not traded on an exchange. *See also NYSE; AMEX.*

P

Pre-tax Profit or Pre-tax Earnings - Net income before federal income taxes are deducted.

R

Reinvestment - Use of investment income to buy additional securities. Many mutual fund companies and investment services and some corporations offer investors automatic reinvestment in the fund or stock of dividends and capital gains distribution earned. *See also dividend reinvestment plans (DRIPs).*

Retained Earnings - Accounting earnings that are retained by the firm for reinvestment in its operations; earnings that are not paid out as dividends.

S

Selling, General and Administrative (SG&A) Expenses - Expenses such as salespersons' salaries and commissions, advertising and promotion, travel and entertainment, office payroll and expenses, and executives' salaries. These costs fall immediately below the cost of goods sold on the income statement.

Small-Cap - A stock with a small capitalization, typically less than \$1 billion in market value. NAIC guideline: Under \$500 million in revenues.

Street Name - Securities held by a broker on behalf of a client and registered in the name of the brokerage firm to make trading easier. Stocks held in street name can be loaned out to speculators selling shares short.

V

Value Investing - An investing style that focuses on the fundamental worth of a company measured by its book value or dividend yield. Compare to growth investing.

W

Working Capital - Defined as the difference between current assets and current liabilities, excluding short-term debt. Current assets may or may not include cash and cash equivalents, depending on the company.

Source for These and More Definitions

Primary source for these practical definitions is *The New York Times Dictionary of Money and Investing* by Gretchen Morgenson and Campbell R. Harvey, Ph.D., Times Books, Henry Holt and Company, New York. Some definitions have been edited or expanded by the *BI* editors to include NAIC stock study terminology.