Investor Information

a. Tips for Investing Wisely

When trading in the Stock Market, one should avoid,

1. Greed; being greedy can be a problem as it corrupts wisdom,
2. Making the same mistake twice,
3. Following the crowd, as the loss at the end is of the individual and not the crowd itself,
4. Putting all your ‘eggs in one basket’. You should diversify and spread your investment,
5. Using rumors as tips, as this can result in losses. A tip can end up as a ‘pit’,
6. Emotions; being emotional can effect reasoning. Traders should use research backed by fundamental reasoning.
7. Impatience; patience pays, perseverance gains,
8. Over borrowing; loan repayment is not an investment.

When trading in the Stock Market, one should remember,

1. Information; it must be checked. Opinion, facts or fiction? Act accordingly,
2. Knowledge; Stock Market principles and practices are unique. Master its cycles, its ups and downs,
3. Wisdom; success depends on your discipline and self improvement,
4. Action plans; plan a scheme, act and follow through. Have options and tactics to win the Stock Market game,
5. Shrewd and Thrifty; be prudent with your money. Avoid stocks that are overvalued but keep the cash or save for other investments,
6. Stock Value; be aware of stock’s true value, despite its ups and downs,
7. Risk Vs. Reward; minimize your risk, maximize your returns,
8. Investment protection; safety of your portfolio and Share Capital is more important.

A good example of understanding the above can be in the case of Hershey’s. Just because the chocolate tastes good does not mean that the position of the company is strong. A point should be made that the product of a company does not provide merit to its strength in the index.

Investor's Protection

- For security reasons, AHM Securities insists that all users, existing and new, should not show their Passwords to other individuals. The same is said for the PIN Code.
- Investors should also not enter into transactions that involve financing that are not stated within the rules and regulations of the Karachi Stock Exchange.
- All payments made to brokers and/or company staff should be crossed cheques (Payee’s Account Only) and obtain proper receipts of the payments made duly signed by the authorized persons.

Ownership of Shares

Each share represents a small stake in the equity of a company. You can buy large or small lots to match the amount of money you want to invest. A company’s share price can rise or fall as a result of its own performance or market conditions.

Once the shares are brought and transferred in your name your name will be entered in the company’s share register, which will entitle you to receive all the benefits of share ownership including the rights to receive dividends, to vote at the company’s general meetings and to receive the company’s reports.

If you decide to sell your shares you will need to deliver share certificates to the broker in time for the transaction to be completed.

With the introduction of the Central Depository System (CDS), an investor can have shares in paper form or can own shares in an electronic book- entry form at the Central Depository Company (CDC).

Why do Investors Buy Shares?

Studies have shown that over a twenty-year span, investment in shares has provided greater returns than most other forms of savings. Shares can provide you with a regular stream of income through dividends as well as the potential for your investments to grow in value. If the prices of shares go up, you can sell them for more than you paid. This is called capital gain.

What are Dividends?

Dividends are returns paid to shareholders out of the profits of the company. Returns can be in the form of cash or additional shares of the company called bonus shares. Dividends are usually paid once or twice a year depending upon the company's profit distribution policy.

What is Capital Growth?

This is one of the ways in which shares differ from deposit accounts. The principal amount of money you put in a bank or any fixed income savings scheme always stays the same e.g. if you start with Rs.100,000 you will always have Rs.100,000 (other than any interest earned).changes in value according to the performance of the company. With good management, the value of your investment in shares of a company can grow over time so that your shares are worth more than you paid for them. This is capital growth.

Risks and Rewards

Buying shares can offer advantages over saving in deposit accounts: your investment may increase in value besides paying you dividends. You share the rewards when the company does well and the price of the shares goes up. But if the company performs badly, the share price may go down and the value of your investment will be reduced. Other factors, such as the performance of the stock market as a whole and the general economic climate, may also affect the price of your shares. Investment in shares is therefore investment in 'risk capital'. The shareholders can be rewarded for taking this risk and the potential return on your money can be higher than that on other investments. You can reduce your risks with careful planning.

b. Things You Should Know Before You Buy a Stock

- What does the Company Do?
- Is the Company Profitable?
- What Is the Company's Earnings History and Outlook?
- How Richly Is the Company's Stock Valued?
- Who are the Company's Competitors?
- Who runs the Company?
- Have You Read the Company's Annual Reports?

Why Stocks are Vital for Superior Growth

Equities are mainly growth investments, and can include things like real estate, art, and gold. However the most popular equity investments that people rely on for growth are stocks. But stocks can also serve purposes other than growth.

In addition to potential capital gains, stocks also have the potential to pay dividends. If you have equity in a business you are an owner, and if your company makes money, you are rewarded with dividend

Expert Opinion

Financial experts have many opinions on many things, but there is one fact on which they will all agree. You need to have stocks in your portfolio to provide the growth you need to stay ahead and have a secure future over the long-term.

They also agree on the best way to invest in stocks is with a long-term view in mind. Over the long run, equities do go up and have proven to be the most profitable investment by far. But the key phrase here, the vital strategy for success is “over the long run”.

When you hold stocks for the long run you get good days and bad days. If you are a short-term trader, unless you have a crystal ball working for you, you are going to miss most of those good days. The simple secret to success is to stay invested.

How do you decide when a Stock is Attractive to Purchase?

There are two general ways of determining a stock's potential as an investment. You can look at the “fundamentals” or you can look at “technical analysis” and of course you can look at both.

Fundamental analysis looks at factors such as earnings, cash flow, debt, strength in its industry, outlook for the industry, general economic factors, interest rates, and so on. If these factors are good, then even if there are short-term setbacks, over the long run, the stock should do well.

Technical analysis looks at factors like volume of trading, cyclical behavior, trends, moving averages and many others.

Some investors use both approaches. They use fundamentals to determine the long-term potential of a company and technical analysis to decide when to buy. For example, you may believe that a certain company has great potential over the long-term and will be worth much more in years to come.

However, it could be that the current market for this company’s product is temporarily weak and that as a result, the stock price could fall. Technical analysis could be helpful in determining how far the price might fall and could provide help in indicating a good time to buy.

How to Become a Shareholder

Shares of a particular company are offered by the following methods.

Initial Public Offering

An initial public offering (IPO) is the sale of equity in a company, generally in the form of shares of common stock. These shares trade on a recognized stock market. A company goes public; to raise capital for project funding, business planning and implementation; for marketing purposes.

Right Issues

A rights issue gives the existing shareholders the right to subscribe for new ordinary shares at an issue price lower than the prevailing market price and at a ratio equivalent to their existing shareholding. Companies carry out a rights issue when they want to raise additional funds to finance their capital requirements.

The Stock Market

Stocks in publicly traded companies are bought and sold at a stock market also known as a stock exchange. This is the most common way of buying and selling shares.

Things you should know about Equities

Stocks and shares are the most volatile asset class in terms of price movements and thus, the most risky. Hence, do not invest directly in the stock market unless you can bear a fall in price without it having any impact on your day-to-day living standard. Remember the saying: “the greater the reward, the higher the risk”.

The aim of investing in stocks and shares is to buy at a low and sell at a high, but knowing when, is the problem. Many investors attempt to time the market: they try to figure out when the market is going up and buy into it before it does, and then figure out when it is going to crash and sell everything just before it does. Unfortunately such spot on accuracy is usually impossible to achieve, so what you can do is try to catch a portion of each big swing. You buy when the upswing has begun, and sell as the downswing starts. But for this to work, you must be able to control your greed, as you do not know exactly when the top or bottom is reached.

The stock market can be said to be driven by two emotions: greed and fear. People get caught up in the boom fever and pay silly prices for unworthy shares - this is greed driving bull markets. In bear markets, people get carried away with the ruling negativity and are overeager to believe the worst rumors - this is fear dominating bear markets. You must step away from the crowd and not let them take over your rational reasoning and action.

What is the CDC

Central Depository Company of Pakistan Limited (CDC) started in 1993 to manage and operate the Central Depository System. CDS is an electronic book entry system to record and transfer securities. Electronic book entry means that the securities do not physically change hands and the transfer from one client account to another takes place electronically. CDC is to operate as a central securities depository on behalf of the financial services industry to support an effective capital market system that will attract institutional and retail level investors from Pakistan and abroad. Its basic purpose is to operate and maintain an electronic book entry settlement system for equity, debt and other financial instruments.

Capital Markets prior to CDS

The capital markets of Pakistan have witnessed a rapid growth resulting in increased trading volume. This in turn has led to difficulty in handling the share certificates. The custody and safe keeping of physical certificates required maintenance of huge vaults by the individuals and institutions and the physical settlement of certificates were no longer feasible. Moreover, the manual system was also plagued by long delays, risks of damage and considerable time delays. Following are some highlighted problems faced before CDS was in place,

- Increased volume of book keeping and paper work.

- Problems in settlement due to increased volume.
- Maintenance of huge vaults for safe keeping of certificates.
- Long share transfer procedure taking up to 45 days.
- Payment of stamp duty on share transfers which ranged from 0.1% to 1.5% of the face value.
- In case of new issues the issuers would take more than 2 months for the dispatch of certificates.
- Risks of damaged, lost, forged and duplicate certificates.
- Capital and time investment required for issue and dispatch of share certificates, cash dividend, bonus and right issues.

Benefits after CDS was Incorporated

Following are some of the benefits of electronic settlement of securities through CDS:

- Reduced workload due to paperless settlement environment.
- Reduced manpower requirements.
- Instantaneous transfers of ownership.
- No stamp duty on transfers in CDS.
- No risk of damaged, lost, forged or duplicate certificates.
- No impact in case of sudden increase of settlement volumes.
- Instant credit of bonus, rights and new issues.
- Substantial reduction of paperwork during book closure.
- Convenient pledging of securities.
- Substantial reduction in time & capital investments.

Tracking stocks

To track how your stocks are doing, you have to look at stock listings. Stock listings are published in most of the newspaper (e.g. Dawn). The listings look confusing at first, since they look like a mixture of numbers, but can be a very useful tool when tracking your stock's progress. The listings are organized into many columns, including the following information:

Company name: This field is usually abbreviated in the listings, and listed alphabetically.

Symbol: This field is a one to five character symbol used as a sort of nickname for the company.

Volume: The volume is the amount of stocks that were traded the day before.

High, Low and Close: These are the highest and lowest price of the stock the day before, and the closing price for the day before. This is an indicator of how much the price of the stock fluctuated throughout the previous day.

Net change: This is the change of the price of the stock from the previous day. This gives you an idea whether the price is dropping or rising.

In addition to the stock listings, other useful information about companies is available in the Annual Reports that reflects the balance sheet, income statement and cash flows and states the reasons for changes in these financial statements during the year.

c. Key considerations for investment in equities

- **Goals**
  Understanding why you are investing is the first step in structuring a portfolio. There are few questions investors need to ask themselves and review with their broker before starting to invest.

  Specifically, What are my investment objectives? What is this money for? What kind of risk am I willing to take? What is my time horizon? It is important that you work closely with your advisor so you both have a clear understanding of your specific needs and goals.

- **Risks**
  Understanding risk is an integral factor that is required to be evaluated before making any investment. You can view risk as portfolio volatility, as the risk of not achieving your goals, or as the risk of permanent capital loss. When you are assessing risk, questions to ask yourself include:

  How much volatility am I willing to accept? What are the consequences if I do not achieve my investment objectives? How large a loss can I sustain? Do I want to use leverage?

  Risk and returns are generally related. Over the long term, increasing your risk typically leads to higher expected returns, while lowering your risk leads to lower expected returns. However, this is not always so. For some occasions, which may occur for an extended period of time, higher levels of risk may lead to lower returns, and vice versa.

  Goals and risk tolerance should be the basis for establishing investment guidelines for your portfolio. These guidelines will enable you to structure your portfolio and provide you with a framework that allows you to review and understand your investment performance.

- **Investment Climate**

  Whenever you hire a broker to invest in the stocks it's not necessary that your results would be same as the market movements. In some cases brokers advise to invest in stocks that are not highly correlated with stock index due to the small capitalization of that particular scrip in the market.

- **Maximization of Returns**

  The goal of the investor, in most cases, is to maximize return. Higher returns are often related with higher degree of risk. Investor should not take unnecessary risk to earn higher profits because it posts a great deal of threat to its basic equity and investments. Investors could avoid risk by diversifying its portfolio in different sectors, which usually pays off in terms of better returns.

- **Company profile**

  Information regarding companies invested in and their economic profile should be exposed to the investor. Investor should be well aware of the financial background, management style and the nature of business of the company to make an adequate investment. Investing in the stock market requires looking ahead to anticipate future events in the company's life and changes in its business environment, to minimize risk and maximize return on investment.

- **How much Money Can You Afford to Invest?**

Investors should be aware of the fact that investments in the stock usually do not result in immediate profits. A sound investment strategy avoids speculative moves. An investor should have excess reserves with its broker to protect himself against frequent fluctuations in stock.

- **Investment Avenues**

Investors can invest in their money in stock in following ways:

Shares: It is the direct mode of investment in which investor directly sell and purchase stocks of various companies through the brokers or dealers.

- **Own Investment Strategy vs. Professional's Advice**

Sound strategy for investment in stock market requires either professional’s advice or own stock dealing decisions, which are often, time consuming. Despite the time consideration it is advisable to pursue own investment strategy because it is more rewarding than seeking broker’s opinion.

Costs

Costs that are associated with stock dealing usually fall under the following heads:

- Daily trade charges cost incurred by the investor for intraday transactions.
- Delivery charges cost incurred by the investor for delivery transactions.

It is highly recommended that the investors should have a proper understanding of the commission structure of the brokerage service. The structure varies from broker to broker in most cases. It is advisable that the investor should ask his broker about all the cost associated with stock dealings to arrive at his net profit position

Information Tools Make All the Difference

While you sense the promise and enjoy the excitement of modern technology, like so many others, you probably feel overwhelmed, frustrated, even lost at the prospect of putting your savings online and on the line. Certainly none of the skills crucial to sizing up the market are intuitive; therefore, in order to see what is really going on, and to become a successful investor, you are going to have to learn about the market's state-of-the-art trading techniques and strategies.

Investing Styles

Different people trade in different styles. There are long-term investors who buy stocks and hold for a year or two. Mid-term investors may buy and hold stocks from thirty days to six months. Short-term traders trade frequently, on a weekly basis. And finally, day traders buy and sell every day. Now, assuming you make good decisions, the more frequently you trade, the more profit you gain. But what style is right for you? Which stocks should you choose and how long should you hold them? Some investors like companies with strongest earnings. Other players examine company financial statements and balance sheets, picking only those with low debt ratio, high cash flow, and high profit margin.

Finding your style

Your investing style comes from a variety of things: your age, personality, personal experience, and financial circumstances to name a few. For instance, if you are approaching retirement, have financial responsibilities, chances are you may be more risk-averse, or a conservative investor.

On the other hand, if you're young, earning a high income, have few financial responsibilities, and have seen little in the way of economic hardship, you might be inclined to take more risk.

While there are as many investing styles as there are investors, most people fall more or less into one of three broad categories: conservative, moderate, and aggressive.

Conservative Investors

Generally, conservative investors feel that safeguarding what they have is their top priority. These investors want to avoid risk particularly the risk of losing any principal even if that means they will have to settle for very modest returns.

Moderate Investors

Moderate investors want to increase the value of their portfolios while protecting their assets from the risk of major losses. They usually buffer the volatility of growth investments, such as stock, with a substantial portion of their portfolio allocated to produce regular income and preserve principal.

Aggressive Investors

Aggressive investors concentrate on investments that have the potential for significant growth. They are willing to take the risk of losing some of their principal, with the expectation that they will realize greater returns.

New to Trading?

The stock market makes an appearance in the news every day. You hear about it when it reaches a new high, in headlines like "The Karachi Stock Exchange Average rose 50 index points today", when a certain stock plummets, or when the political scenario changes.

Obviously, stocks and the stock market are important, but you may find that you know very little about them. What is a stock? What is a stock market? Why do we need a stock market? Where does the stock come from to begin with, and why do people want to buy and sell it? If you have questions like these, you've come to the right place.

Welcome to a whole new world.

The Basic Idea

Stocks in publicly traded companies are bought and sold at a stock market (also known as a stock exchange). The Karachi Stock Exchange (KSE) is an example of such a market.

In your neighborhood, you probably have a supermarket that sells groceries. The reason you go the supermarket is because everything you need to run your home is available under one roof. It's far more convenient than having to make 10 stops at different stores.

The KSE is a supermarket for stocks. The KSE is like a big room where everyone who wants to buy and sell shares can go to conduct their transactions.

The Exchange makes buying and selling easy. You do not have to actually travel to the Stock Exchange; rather, you can call a stock broker who does business with the Exchange, and he or she will go there on your behalf to buy or sell your stock. With an Exchange in place, you can buy and sell shares instantly.

The Stock Exchange has an interesting side effect. Because all the buying and selling is concentrated in one place, it allows the price of a stock to be known every second of the day. Therefore, investors can watch as a stock's price fluctuates based on news from the company, media reports, economic news and a range of other factors. Smart buyers and sellers take all of these factors into account before making decisions.

Sole Proprietorship/Partnership

If you start a business using your own money, you have formed a sole proprietorship. You own the entire business yourself. If three people pool their money together and start a business as a team, they have formed a partnership. The three people own the business, sharing the profit and decision-making.

Corporations

Any business that wants to sell shares of stock to a number of different people does so by turning itself into a corporation. The process of turning a business into a corporation is called incorporation.

A corporation is different, and it is an interesting concept. A corporation is a "virtual person." That is, a corporation is registered with the government, it has a tax number, it can own property, it can go to court, and it can enter into contracts. By definition, a corporation has stock that can be bought and sold, and all of the owners of the corporation hold shares of stock in the corporation to represent their ownership. One incredibly interesting characteristic of this "virtual person" is that it has an indefinite and potentially infinite life span.

There is a whole body of law that controls corporations. These laws are in place to protect shareholders and the public. These laws control a number of things about how a corporation operates and is organized. For example, every corporation has a board of directors. The shareholders in the company meet every year to vote on the people for the board. The board of directors makes the decisions for the company. The board of directors can be thought of as the brain of the virtual person.

The owners of a corporation gain ownership by buying shares of stock in the corporation. The board of directors decide how many total shares there will be. For example, a company may have one million shares of stock. The company can either be privately held or publicly held. In a privately held company, the shares of stock are owned by a small number of people who probably all know one another. They buy and sell their shares amongst themselves. A publicly held company is owned by thousands of people who trade their shares on a public Stock Exchange.

A corporation is an easy way to gather large quantities of investment capital. When a corporation first sells stock to the public, it does so in an IPO (Initial Public Offering). The company might sell one million shares of stock at Rs. 20 a share to raise Rs. 20 million very quickly. The company then invests the 20 million rupees in equipment and employees. The investors who bought the stock hope that with the equipment and employees, the company will make a profit and pay a dividend.

Stock Exchanges in Pakistan

There are three Stock Exchanges in Pakistan:

1. Karachi Stock Exchange; formed in 1947
2. Lahore Stock Exchange; formed in 1971
3. Islamabad Stock Exchange; formed in 1989

Out of all the three Exchanges, the Karachi Stock Exchange is the premiere Stock Exchange of the country, with 559 listed companies. It was established soon after the creation of Pakistan.

When people talk about investing, they think of putting money into a company stock and holding it for a long time until they realize a significant gain. From this view, put simply, investing is to "buy and hold." In reality, people also use the term "invest" to describe mid-term and long-term stock acquisition. Mid and long-term investors will study stock fundamentals such as a company's quarterly earnings report, a company's relative strength in its industry sector, new product lines, technological innovation, or new management teams or strategies. They also look at stock charts and use basic technical analysis combined with overall market conditions to determine an entry point. Then, having done all this, they may sit back without worrying too much about short-term market fluctuation. In another form of trading, short-term traders attempt to buy low and sell high, not focusing as much on company fundamentals as long-term investors tend to do. Short-term traders may seem to care very little about conventional indicators. What they do care about is market volatility, the rising and falling of stock values, for the more ups and downs a stock has, the more money they believe they can make, getting in and out fast to take a quick profit.

Investment Portfolio

An investment portfolio is an investor's collection of investments. A portfolio is a list of the total number of investments an individual investor holds. A diversified portfolio contains assets from a number of different sectors.

Every investor should know that there is a tradeoff between risk and reward: To obtain greater expected returns on investments, one must be willing to take on greater risk.

Portfolio Management

Portfolio management is all about the art and science of making decisions about an investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk vs. performance.

Risk Management

The main difference between an amateur and an experienced trader is that the latter always tries to understand and control portfolio risks. Before entering into any trade, good traders first think about how much risk to take and how much risk exposure comes with a particular trade selection. Only then do they allow themselves to think about how much profit they stand to make. Smart investors always cut down their position and exposure if they determine that a portfolio carries too much risk. They calculate this all-important estimation by employing Risk Management defined as that set of methods and procedures taken to estimate, and control risk for the purpose of achieving optimal investment results.

The following is a list of key points for managing portfolio risk:

- Know your overall risk tolerance before building up the portfolio.
- Determine your overall loss level. Usually your portfolio should not lose more than 10% of your capital.
- Diversify your investment in at least three or more different stocks.
- Actively manage the risk of every individual trade.
- Know your overall risk and where the risk comes from.
- Act quickly when you see your risk limits exceeded.
- Close out the entire portfolio if it loses to your overall stop-loss level.

How to be a Successful Investor

One successful investor who made a lot of money defined stock trading as a challenging game of strategy and discipline. The stock market is vastly complex and dynamic, so you need to exercise strict discipline, clear judgment, do your homework, and set firm goals and limits. Sometimes the most important work you can do is exercising patience, confidence, and discipline. You need to stay calm, keeping your mind clear and focused. You can't blindly bet that the stock price will go up or go down. You need to be well informed and make buy or sell decisions based on facts and logic.

In investing, intuition also plays an important role. Good intuition comes from experience and sound judgment. When you start making money, you cannot think of yourself as a winner yet because if you lose focus and become greedy, you can lose your money in an instant. More importantly, if you happen to lose money, you cannot let yourself conclude that a single loss makes you a loser. Losing money can be very upsetting, but you need to be consistent and not quit the game easily. Learn to use a loss as a lesson, just as professional traders do, and determine why you lost. In this way, you maximize your chances of becoming a better investor. Talk with your friends and listen closely to trading tips, but in the end, you have to make your own judgments. Believe in yourself. If your next pick ends up being wrong, that may mean you have not yet done sufficient homework on that stock.

Diversification

Diversification means creating an investment portfolio that contains different types of investments within each of the major classes. A diversified portfolio might include stock in several different companies or a number of stock mutual funds, government and corporate bonds. You might diversify a larger portfolio even further by including a range of investments from other asset classes, such as real estate.

Reasons to Diversity

There are two important reasons to diversify your investment portfolio:

- To take maximum advantage of market conditions
- To protect yourself against downturns

Taking Advantage of Market Conditions

Each of the traditional asset classes tends to produce its strongest returns under different market conditions than the other asset classes do. For example, stocks often shine when corporate earnings are strong and financial markets are expanding.

If your investments are narrowly focused, for example, if you own stock in just one company or stock in three companies in the same industry or area of the economy, the value of your portfolio can drop sharply if that company or industry produces disappointing returns. But if you own stocks of different-sized companies in different parts of the economy, even if some investments go down in value, others may remain stable or go up. In any case, different types of stocks are not as likely to lose value at the same rate or at the same time.

Finding the Right Balance

Diversification is not just about increasing the sheer number of your investments. It is about striking a balance among various investments in your portfolio to reduce your exposure to risk and take advantage of the full range of opportunities in the market. First, you need to analyze what you already own before you make another investment. Then you can identify the categories that you need to build up.

For example, if all of your stock investments are in large company stocks, it may be time to investigate some smaller company stocks, since they tend to perform differently and rise and fall in value at different times than larger company stocks. In this way, you can offset some of the risks that each investment carries on its own, while enjoying many of the advantages and benefits of each category of investment.

Investors Portal

Important Websites

Website	Website Address
KSE	http://www.kse.com.pk/
SECP	http://www.secp.gov.pk/
SECP Rules & Regulations	http://www.secp.gov.pk/Services/laws_policies.asp
SECP Investors Guide	http://www.secp.gov.pk/Guides/Nov2010/InvestorGuide.pdf
NCCPL	http://www.nccpl.com.pk/
NCCPL-UIS	http://www.nccpl.com.pk/uis/index.php
CDC	http://www.cdcpakistan.com/
CDC IAS Services	http://www.cdcpakistan.com/UserPanel/AboutUs/ViewContent.aspx?m=cb&type=0038
NCEL	http://www.ncel.com.pk/
SBP	http://www.sbp.org.pk/

Miscellaneous

Glossary

The financial world has developed a special investment-oriented language to help describe the stock market, investments, securities for the stock market, stock market analysis, and its conditions. At times you may be confronted with a term which is totally alien or has a completely different meaning from what you thought. Misunderstanding these terms can sometimes lead to the wrong conclusion, and that can cost you money!

What you don't know can hurt you.

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | Y | Z

Absolute Breadth Index

A market momentum indicator that measures how much activity, volatility, and change is taking place on the KSE while ignoring the direction prices are headed. High readings indicate above average market activity and change, while low readings indicate lack of change. Historically, values above 450 typically lead to higher prices three to 12 months later. The Absolute Breadth Index is calculated by taking the absolute value of the difference between KSE Advancing Issues and Declining Issues.

Accounts Payable

A species of short-term debt, accounts payable are simply bills from suppliers for goods or services purchased on credit. They must be paid within 12 months.

Accounts Receivable

Money owed to a business for goods or services purchased on credit. Most businesses extend credit; although restaurants, supermarkets and others are paid on the spot for the things they sell, businesses generally grant 30 days or more to pay. Thus, when a sale is made, a ""receivable"" is recorded in the assets column of the balance sheet. Receivable turnover is an important indicator of how effectively a firm is collecting on its receivables, and whether a cash crisis might be in the offing

Accumulated Depreciation and Depletion

The cumulative charges against the fixed assets of a company for wear and tear, obsolescence, or the depletion of a natural resource -- oil in the ground, for instance -- as it is used up.

Accumulation And Distribution

A market momentum indicator that associates changes in price with volume. The indicator is based on the premise that the more volume that accompanies a price move, the more significant the price move. When this indicator moves up, it shows that the security is being accumulated (i.e., bought), as most of the volume is associated with upward price movement. When the indicator moves down, it shows that the security is being distributed (i.e., sold), as most of the volume is associated with downward price movement.

Actual Earnings

The actual Earnings Per Share (EPS) reported by the company -- as opposed to the EPS estimates predicted by analysts.

Adjusted gross income

An individual's gross income after a limited group of expenses is subtracted. These expenses range from business expenses, capital loss deductions, expenses from rent or royalty income, individual retirement account contributions, alimony and other expenses.

Advance-Decline Index

The ratio of advancing stocks to declining stocks, the advance-decline index over time gives an indication of where the broad market has been going -- a trend that is sometimes masked by indexes, which contains just 30 stocks, all large industrial concerns whose fortunes don't always reflect the overall market.

Advisory Services

Privately circulated publications that comment on the future course of financial markets and make buy and sell recommendations. A subscription is usually required.

Aggressive Growth Funds

Of all mutual funds, aggressive growth funds offer some of the highest potential returns but with above-average risk. Aggressive growth funds look for stocks that may rise sharply in value, rather than securities that offer shareholders steady income through dividends. Many of the funds invest in new issues or in stocks of troubled companies. Fund managers may also use options or other tools as part of their effort to boost the fund's return.

Amortization

A plan that enables a borrower to pay off a debt, such as a mortgage, gradually through periodic payments of principal and interest.

Annual Return

Annual return on investment is calculated by taking the value of the investment held at the beginning of the ROI period compared to the current value. In other words:

((Current Value) - (Beginning Value) + (Income)) / (Beginning Value), where

(Current Value) = (the current total shares) * (the last price),

(Beginning Value) = (number of shares held prior to the period - any shares sold) * (the closing price prior to the period) + the "Cost Basis" of any shares added in this period (Buys, Reinvest, Add Shares, etc), and

(Income) = any income events such as Dividends/Interest (not Reinvested) and Realized gain/loss from Sells in this period.

For example, assume that on 1/1/99 you owned 1000 shares of PIAA (which had been purchased prior to this date), the last price (on 12/31/98) was Rs.69 11/32, and you still own the 1000 shares and the current price is Rs.90 1/8. The ROI (YTD) for MSFT would be calculated:

((1000 * 90.125) - (1000 * 69.34375)) / (1000 * 69.34375) = 20781.25/69343.75 = 29.968%

If you had purchased 200 additional shares at Rs.75/- each during this period, the formula would be modified as follows:

((1200 * 90.125) - (1000 * 69.34375 + 200 * 75)) / (1000 * 69.34375 + >200 * 75) = 23806.25/84343.75 = 28.225%

Annualize

Convert to a yearly basis. If inflation was 1% in a given month, it is considered to be running at 12% on an annualized basis. Note that annualized figures typically ignore compounding.

Annuity

A contract between you and an insurance company where you pay the insurer a specified amount and, in return, receive regular payments either for life or for a stated period of time. The money grows on a tax-deferred basis until you begin receiving it, usually after age 59 1/2. At that point, you can continue to postpone the tax bite by ""annuitizing"" the money -- in other words, converting the assets into a monthly stream of income.

There are two basic types of annuities: fixed and variable. If you choose a fixed annuity, the premiums you pay will be invested in fixed-rate instruments such as bonds or mortgages.

A variable annuity works more like a tax-deferred mutual fund. Your premiums could be invested in a variety of items, ranging from individual stocks and mutual funds to real estate and certificates of deposit. Thus, your return will vary depending on the success of the portfolio.

Annuity, Deferred

An annuity contract for people who want to save on a tax-deferred basis for many years, then convert to a payout schedule once they retire. When purchasing such an annuity, be particularly wary of potentially high fees and expenses. Most companies do not charge an initial commission, or load. Instead, they levy a substantial surrender charge of as much as 10 percent of your principal if you want to cash out or transfer your annuity to another company within the first five or ten years of the contract. However, some annuities permit a free withdrawal provision after the first year and for every year thereafter that surrender charges apply. This allows you to withdraw a certain percent (usually 10 percent) of the accumulated account value.

Annuity, Immediate

An annuity where payouts begin shortly after you purchase the contract, usually recommended for people who are about to retire. The size of the monthly payouts will primarily be based on how much you paid for the annuity. Part of each payment you receive will be considered a return of your original investment; the rest will reflect interest earned during the payout period.

Annuity, Single Life

A pension, sometimes called a straight-life annuity, that provides you with a regular payment every month after you retire for the rest of your life. If you choose a single-life annuity and live longer than actuarial tables suggest you will, the payments will keep coming and the annuity will have worked in your favor. But if you die before the average age, the remaining cash will either revert to the pension fund or -- if the pension fund permits -- be paid in a lump sum to your estate.

Annuity, Split

An annuity contract where the principal investment is split between a deferred annuity and an immediate annuity. A split annuity can help you increase the after-tax earnings from other fixed-rate investments you have made, such as a certificate of deposit.

Before you rush out to purchase a split annuity, there are a few issues you need to consider. For one, annuities aren't as liquid as CDs. They also involve higher surrender charges.

It's also important to remember that annuities have different estate and income tax implications at death than CDs do. And if interest rates are low, you might have to choose an annuity that has a variable rate rather than a fixed-rate -- a selection that may result in higher returns but will also increase your risk.

Appreciation

Computed as market value less cost basis. It answers the question, how much money did I make?

Arbitrage

An investment technique used by big Wall Street firms and high-rolling investors to cash-in on seemingly insignificant differences between stock indexes and futures contracts on those indexes. Indexes, and futures contracts on those indexes, don't always move in lock step. When they get out of whack, a nimble arbitrageur can make a lot of money by buying the less expensive one and selling the one that's more expensive.

""Arbs,"" as they're called, depend on computers. When all the arbs move in the same direction, the overall market can go haywire. Anytime the stock market dramatically surges or falls, it's a pretty safe bet that the arbitrageurs were somehow involved.

Ask

The price at which a holder of a security is willing to sell (as opposed to the bid price, which is what someone is willing to pay). In general, the asked price is the price you pay when you buy, and is higher than the bid. In over-the-counter trading, securities dealers profit from the spread between these two -- so much so that they are often willing to pay discount brokers for ""order flow."" These payments help make it possible for discounters to charge customers rock-bottom, flat-rate commissions per trade. The question is whether discounters are choosing the highest payers rather than dealers who can get the best price on a trade.

Ask Size

The number of shares the seller(s) offering the ask price are willing to sell.

Asset Allocation

An investment strategy where you decide what percentage of your investment portfolio should go into stocks, bonds, or other asset classes. After you set up your portfolio based on your asset allocation strategy, adjust your holdings on a regular basis to maintain these percentages. Your decision in this respect is perhaps the single biggest factor that will determine your long-term investment outcome, so make it carefully. The asset allocation model you choose should be based on how much risk you are willing to take.

Asset Management Account

A type of checking account offered by some banks and brokerage firms. The typical asset management account allows you to write an unlimited number of checks each month. The bank or brokerage house will also provide a comprehensive statement of the account's activity at the end of the year. You can use the account for all your banking and investment needs, which helps to make your own bookkeeping easier.

Asset Turnover

This ratio, which is simply sales divided by assets, can show both how capital intensive a business is, and how well it uses assets to produce revenue. Some businesses -- software makers, to cite an extreme example -- can generate tremendous sales per dollar of assets. Electric utilities and cable TV firms, on the other end of the scale, require a huge asset base to generate sales.

Assets

Any item of value owned by a business. A firm's assets are listed on its balance sheet, where they are set off against its liabilities. The assets of a business are the capital stock that make it possible -- with the addition of labor -- for the company to generate a profit. Assets may include factories, land, inventories, vehicles and other items. But not all assets are created equal. Some assets, such as cash, are easy to value and liquidate. Others, such as buildings and farmland, are quite real too, if somewhat more difficult to value accurately. These kinds of assets are collectively known as tangible assets. Intangible assets, such as goodwill, also can be important to the success of the enterprise. Goodwill, for instance, could include a valued brand name gained in an acquisition (a famous brand, such as Coca-Cola, doesn't normally show up on a balance sheet otherwise). In general, firms are required to carry assets on their books at cost less depreciation. This conservative principle means that the balance sheets of most companies understate the true value of their holdings. Land purchased 50 years ago and carried at cost might be worth many times the initial price, for instance. Conversely, a firm that owns a brand new buggy-whip factory might in fact overstate the value of its assets by carrying them at cost. For banks, most assets are in the form of loans (deposits are liabilities).

At-the-Money Option

An option for which the underlying investment sells at the same price as the strike price of the option.

Average Cost

The total cost for all shares of an investment divided by the number of shares held. You can average up or average down, depending on the direction of prices and your faith in a given company.

Average Credit Quality

A measure of the overall credit quality of a given bond portfolio.The average credit quality is derived by taking the weighted average of the credit rating for each bond in the portfolio. For corporate-bond and municipal-bond funds, this section contains a credit analysis of bonds in the portfolio showing the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Standard & Poor's or Moody's. Average credit quality offers a quick way of assessing how much credit risk (in other words, default risk) there is in a given bond fund, and thus how aggressive the fund's style is. The lower the overall credit quality, the higher the risk.

Average Daily Volume

The number of shares traded in a given number of days, divided by that number of days. This is useful for judging how liquid a stock is (thinly traded issues are riskier) and whether any one day's volume marks a sharp departure from the norm. The latter usually indicates some news or change of circumstances that could be relevant to shareholders.

Average Estimate

The average of earnings estimates put forth by leading analysts covering a given stock.

Average Return

The total return of the mutual fund divided by the number of years used in the calculation.

Balance Sheet
A firm's balance sheet is a snapshot of its financial picture on a given day. One side of the balance sheet totals up assets, moving from most liquid (cash) to least liquid (plant and equipment or goodwill). The other side of the balance sheet lists liabilities in order of immediacy. Remember that assets must equal liabilities plus shareholders equity. The balance sheet, along with the income statement, is an important tool for analyzing the financial health of a company. Using only a firm's balance sheet, you can compare current assets and current liabilities to assess liquidity; you can compare debt to shareholder's equity to see how leveraged the company is; and you can get a better idea of whether the assets might include some hidden value.

Balanced Fund
A mutual fund that invests in some mix of stocks and bonds. A good balanced fund offers the advantage of one-stop shopping; it handles asset allocation and mixes equities with fixed income securities. The knock on these is that you don't get to determine your own asset allocation, and there is considerable evidence that asset allocation is the most

important factor in portfolio returns. Instead of a balanced fund, for instance, you could choose a good equity fund and a good bond fund and then decide your own proportions.

Bankruptcy
Under federal law, a debtor hands over his assets to the bankruptcy court and is relieved of the future obligation to repay his unsecured debts.

Bar Charts
A chart that displays a security's open, high, low, and close prices using one vertical line for each time period - whether it is a day, week, month, etc. Bar charts are the most popular type of security chart. On the left side of the bar is a ""tick"" that indicates the opening price. The tick that appears on the right side of the bar is the closing price. The vertical length of the bar shows the price range.

Basis Point
One one-hundredth of a percent. Thus, if a bond's yield drops from 6.56 percent to 6.51 percent, it is said to have fallen by 5 basis points.

Bear
A Wall Street biped who believes the market will go down. In recent years bulls have rendered bears almost extinct, but it's hard to believe that the Ursidae family will not come roaring back sooner or later.

Bear Market
When stocks trend downward for a long period, it's a ""bear"" market. Conversely, when stock prices have risen steadily over several months, experts call it a ""bull"" market. These terms were selected based on the way the two animals attack. When a bull rushes forward, he holds his head low and then gores upward with his horns. A bear, on the other hand, strikes downward with his paws.

Bear Trap
A signal that suggests that the rising trend of an index or stock has reversed but then proves to be false.

Bearish Spread
An option spread designed to be profitable if the underlying security declines in price. A bearish debit spread involves purchasing a put and selling a further out-of-the money put. A bearish credit spread involves selling a call and buying a further out-of-the money call.

Beneficiary
A person who receives a benefit, such as the income of a trust or proceeds from an insurance policy.

Bid
The price at which someone is willing to buy a security. This is what you get when you sell (as opposed to the asked price, which is what you hoped to get). In over-the-counter trading, securities dealers profit from the spread between bid and asked prices.

Bid Size
The number of shares the buyer(s) offering the bid price is willing to buy.

Bid/Tick

Indicates whether the current bid is higher, lower, or the same as the previous bid.

Blue Chip
Generally refers to stocks of large, established companies that are considered less risky than most

Bollinger Bands
A trading band (upper and lower boundary lines) plotted at standard deviation levels above and below a moving average. Because standard deviation measures volatility, the bands widen during volatile markets and contract during calmer periods.

The major assumption that technical analysts make when using Bollinger Bands to trade is that prices tend to stay within the upper and lower band. When a price breaks through a boundary, either above the upper line or below the lower line, it usually signals that the move is strong enough to continue further. When the bands get closer together, it is more likely that there will be a price breakout. You can create the bands using any moving average. Some analysts recommend the 10-day moving average (MA) for short-term trading, the 20-day MA for intermediate trading, and the 50-day MA for long-term trading.

When using Bollinger Bands to arrive at buy and sell decisions, it is recommended you confirm potential trades with other indicators and fundamental data.

Bond

Basically, a bond is an IOU from a company, governmental entity or other issuer promising to repay a given amount by a given date. Usually, interest is paid. Bonds represent debt, as opposed to stocks, which represent an ownership stake. Bonds usually can be bought and sold, just as stocks can be, and their prices fluctuate based on interest rates and the creditworthiness of the issuer, among other factors.

Bond Rating

A grade on creditworthiness given to a bond by one of the big rating agencies, such as Moody's or Standard & Poor's. The top ratings, some variant of A or AAA, signify the greatest likelihood that bondholders will be paid interest and get return of principal, but bonds with these ratings usually pay the least interest. Risk and reward are related, after all.

Book Value

This is the net worth of a company, the amount by which assets exceed liabilities. It's also known as ""shareholder's equity."" Most companies are worth far more than their book value, since ""worth"" means what someone is willing to pay, and hardly any good companies can be acquired for this baseline price. Book value is of particular interest to value investors.

Book Value/Share

This is simply the company's most recent quarter net worth divided by the latest shares outstanding. Often of interest to value investors, the book value per share ratio is an expression of how much in actual value would be left for each share if the company went out of business. This figure can be especially noteworthy when considering a turnaround situation. Sometimes a firm's stock is so beaten down that shares are trading at or below book value, implying a real bargain (or that its balance sheet overstates its assets). In such circumstances, a look at cash and marketable securities per share can help. Book value per share is not to be confused with "break-up value," which attempts to determine what the parts of a company might be worth if sold off. This figure is much harder to pinpoint but is considered by many analysts more realistic. It is also usually higher than book value.

Breakout

If a stock has traded in a narrow range for some time (in other words, built a base) and then advances above the resistance level, this is said to be an upside breakout. Breakouts are suspect if they do not occur on high volume (compared to average daily volume). Some traders use a buy stop, which calls for purchase when a stock rises above a certain price.

The opposite of upside breakout is called penetration of support or breakdown. In the same way that a trader can set a buy stop to enter a position on an upside breakout, a trader can set a sell stop to exit a position on breakdown.

Brokerage Availability

Lists brokerage firms that make the fund available through their mutual fund program. If ""NTF"" (No Transaction Fee) appears after the broker name, it means that in most cases the broker does not charge a commission for funds participating in their program.

Bucket shops

Hard-sell telemarketing operations pushing securities or financial services.

Bull

A species common on Wall Street of late, bulls believe the market will go up

Bull Market

When stock prices have risen steadily over several months, experts call it a ""bull"" market. When stocks trend downward for a long period, it's a ""bear"" market. These terms were selected based on the way the two animals attack. When a bull rushes forward, he holds his head low and then gores upward with his horns. A bear, on the other hand, strikes downward with his paws.

Bull Trap

A signal that suggests that the declining trend of an index or stock has reversed but then proves to be false.

Bull/Bear Ratio
A market sentiment indicator based on a weekly poll of investment advisors as to whether they are bullish, bearish, or neutral on the stock market. Extreme optimism on the part of the public and even professionals almost always coincides with market tops. Extreme pessimism almost always coincides with market bottoms. Historically, readings above 60 percent have indicated extreme optimism (which is bearish for the market) and readings below 40 percent

have indicated extreme pessimism (which is bullish for the markets).

Bullish Spread

An option spread designed to be profitable if the underlying security rises in price. A bullish debit spread involves purchasing a call and selling a further out-of-the money call. A bullish credit spread involves selling a put and buying a further out-of-the money put.

Buy on Margin

The practice of buying stock with money borrowed from a broker. The loan is collateralized by the security you've purchased, which is held in a margin account. The broker will charge you interest, but the rate is usually attractive compared with other forms of debt, since it is secured by an easily marketable stock. Still, you need to make enough on the stock to pay commissions and cover interest. Trading on margin can improve investment returns, but it's risky. If you buy a stock on margin and it goes down, you'll need to pony up more cash to maintain your collateral, or watch your broker sell out your position.

Call
Noun: The opposite of a put, a call is an option that gives you the right to buy a given stock (or commodity or other asset) at a given price in a given period. You pay a fee for this privilege. If it doesn't, the call expires worthless, and you're out the fee you paid. Calls are often used to hedge risk. Covered calls appeal to conservative investors.

Verb: A bond issuer might have the right to call a bond, meaning redeem it early, usually because interest rates have fallen.

Callable Bond
A bond that can be retired, or ""called in,"" by the issuer before the bond matures. The power to call a bond gives companies a way to respond to falling interest rates.

Say XYZ Corp. issued bonds with a 12 percent coupon several years ago, when interest rates were high. If bond rates had since dropped to 7 percent, XYZ Corp. could call the bonds, pay off the investors and issue new bonds at just 7 percent -- saving millions in interest charges. The investors would come out on the short end, because they would have to re-invest the cash at much lower rates.

Callable bonds often pay higher rates than noncallable bonds to compensate investors for this uncertainty. If you decide to buy callable bonds, just remember that the bond might be called back if interest rates drop.

Called Away
The process whereby a seller of a covered call option is obligated to surrender the underlying stock to the option buyer at the strike price of the option sold.

Candlestick Charts
A chart that displays the open, high, low, and close prices of a security for each time period and illustrates the relationship between these prices. The chart elements look like a candlestick with wicks at both ends. The actual candle portion is called the ""real body"" and is determined by the day's open and close prices. The wicks, called ""shadows,"" show the price range for the day. When the close is higher than the open, the body is colored red (if color is available) or left white. When the close is lower than the open, the body is filled in or colored black.

Capital Expenditure/Spending
Spending on plant, equipment and the like. Capital expenses usually purchase things that last more than a year; these expenses are therefore capitalized on the balance sheet, and depreciated annually. Capital spending varies widely by industry. Power utilities, cable TV firms, heavy manufacturers and the like often have large capital expenditures. Securities firms and software companies, by contrast, depend more on human resources.

Capital Gains Distribution
When mutual funds profit by selling some of the stock in their portfolio, they pass along the gains to their shareholders in the form of a capital gains distribution. Such distributions, which often mean tax trouble for investors, typically occur annually, and the net asset value of the fund falls by the amount of the distribution. Theoretically, this is a wash for investors, except the distribution is taxable.

Cash and Equivalents
Refers to how much cash the company has on hand. ""Equivalents"" means things like certificates of deposit, commercial paper and the like, which can quickly and easily be converted into cash. Cash is king, as the saying goes, and a company with a lot of cash is in a formidable position. On the other hand, large amounts of cash are a drag on performance, since most successful companies can generate a far better return on other assets than on short-term investments.

Cash at Beginning of Period
The amount of cash and cash equivalents at the beginning of the fiscal period.

Cash Flow
Net income minus preferred dividends plus depreciation (as given in the income statement). Generally speaking, cash flow is the best measure of a company's profits, and is usually calculated by adding depreciation and any other non-cash charges to earnings after taxes. Investors look to cash flow for several reasons: because firms have accounting leeway when it comes to reporting net income; because depreciation charges, while substantial in many industries, aren't genuine bills that have to be paid; and because cash flow is the key to a company's ability to pay dividends, cover debts and so forth. Thus, some analysts focus on the ratio of price to cash flow rather than the traditional price/earnings (P/E) measure. Cash flow is especially useful in assessing firms in capital intensive industries -- cable TV, for instance -- in which huge depreciation charges can hide healthy profits.

Casualty
A casualty is legally defined as when property is damaged or destroyed from a sudden and unexpected event.

Category Average Return
Calculated by adding the returns of all mutual funds in a particular category and dividing the result by the number of such funds. This gives an indication of how any one fund is performing versus comparable funds.

Category average return provides an important benchmark for fund comparisons, since it compares apples to apples and oranges to oranges. There is little point in comparing the returns of a domestic stock fund with a municipal bond fund, for example.

Churning
An unethical practice used by some brokers in which they repeatedly buy and sell in their customer's accounts for the sole purpose of generating commissions.

Class of Options
Option contracts of the same type (put or call) and style (American or European) that cover the same underlying

security.

Close
The final trading price for a security or fund at the end of the most recent trading day.

Closed-End Fund
A closed-end fund is a mutual fund whose shares trade from investor to investor on an exchange like individual stocks. Closed-end mutual funds raise money only once and offer only a fixed number of shares. Most mutual funds are open-end funds, and sell as many shares as investors want. Investors who want to sell redeem their shares through the fund.

Commission
A fee brokers charge for executing a transaction. The amount is usually based on number of shares or the total dollar amount of the trade.

Commodity
A fungible, generic item such as copper, oil, cocoa and so forth that can be bought and sold pretty much on quantity alone. Trading in commodities is a highly risky endeavor best left to professionals.

Common Stock
An ownership stake in a company. Holders of common stock shares are last in line in terms of their claim to dividends, assets, etc.

Common Stock Equity
The difference between assets and liabilities, common stock equity is another way of saying net worth. It's what would belong to the company's owners -- the holders of its common stock -- after selling the assets and paying off the creditors. Literally, paid-in capital plus retained earnings.

Company Name
The name of the organization that issued the security.

Composition
A breakdown of a mutual fund's assets by investment class; in other words, how much is in stocks? How much in bonds? How much in cash?

The percentage listed as Stocks incorporates only the portfolio's straight common stocks. Cash encompasses both actual cash and cash equivalents (fixed-income securities with a maturity of one year or less). Negative percentages of cash indicate that the portfolio is leveraged, meaning it has borrowed against its assets to buy more securities or that it has used other techniques to gain excess exposure to the market. Bonds include every fixed-income security with a maturity exceeding one year, from government notes to high-yield corporate bonds. Other includes preferred stocks as well as convertible bonds and convertible preferred.

These composition figures reveal important information about a mutual fund, including the extent to which it is living up to its billing. Does your equity fund, for instance, hold 35 percent of its assets in bonds? The composition figures are also useful for judging how bullish a fund is. A large proportion of assets in cash, for example, might indicate a defensive posture.

Concentration risk

The risk you take when you put all your money into one stock, or in your home or your business

Conglomerate
A company engaged in a variety of businesses. Conglomerates were very big in the 1960s and 1970s, but in the 1980s many were dismembered when investors realized the whole was worth less than the sum of the parts.

Consensus EPS Trend
This illustrates how the consensus estimate for a company's earnings has changed over time. Earnings estimates by analysts are important; a company that doesn't satisfy expectations can find its stock hammered.

Consensus Estimate
This is the average Earnings Per Share (EPS) estimate for a given company. It is derived by averaging the top analysts' estimated EPS figures. Consensus estimates are important because a company that doesn't satisfy expectations can find its stock hammered.

Consolidated Balance Sheet
A balance sheet that combines the assets and liabilities of the various subsidiaries of a firm into a single snapshot. Most balance sheets for large firms are consolidated.

Constant Ratio Investing
An investing strategy where investors adjust their portfolios on a regular basis to keep the ratio of stocks and bonds constant. According to ""Wealth Enhancement & Preservation,"" a Web-based database created by Robert A. Esperti and Renno L. Peterson for the National Network of Estate Planners, ""Constant-ratio investing is yet another averaging method of investing. Here you are fixing the overall allocation of stocks and other asset classes. An example might be 50 percent equities and 50 percent bonds. Each month you adjust the portfolio so that this ratio remains constant."

By sticking to the same percentage allocation week-in and week-out, you lessen the chance of being whipsawed by a sudden change in the stock market, bond market, or both.

Consumer Confidence
A US. government report that measures the level of consumer confidence based on a monthly survey of 5,000 households in USA. The report can occasionally be helpful in predicting sudden shifts in consumption patterns, though most small changes in the index are just noise. Only index changes of at least five points should be considered significant. The index consists of two subindexes - consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%. The expectations index is typically seen as having better leading indicator qualities than the current conditions index.

Consumer Credit
A US government report measures consumer debt under three categories: auto loans, revolving loans, and credit card debt. The Consumer Credit Report is volatile and subject to massive revisions. It is also released well after every other consumer-spending indicator, including weekly chain store sales, auto sales, consumer confidence, retail sales, and personal consumption. For these reasons, the market almost never reacts to the consumer credit report.

Since we already have indications on total consumer spending well before this release, there is little to be gained from learning what portion of spending was financed through acquisition of debt. Periods of strong spending can be accompanied by relatively weak credit growth and vice versa, so this measure fails even as a coincident or lagging indicator.

Consumer Durables Sector

A category that includes auto, house wares, recreation/luxury and multi-industry companies.

Consumer Price Index
Also known as the cost-of-living index, this is a government index that measures changes in the price of typical consumer goods. The corresponding index for wholesale prices is the Producer Price Index.

Consumer Sentiment Index
An index that combines the current and expected levels of consumer confidence. This index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two components - expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

Contract Size Of An Equity Option
The amount of the underlying asset covered by the options contract. This is 100 shares for one option contract unless adjusted for a special event, such as a stock split or a stock dividend.

Contrarian
One who goes counter to the herd on the Stock Exchange. A contrarian seeks out-of-favor sectors, may sell when others buy, etc.

Convertible Security
A security that can be converted into some other kind of security. Typically this means a species of bond that can be converted into common stock at a given price at the option of the holder, who would make the conversion if the common shares rise above this price. Convertibles are attractive to investors who want the dividend and added security of a bond, but the chance to cash in on some stock gains as well. Convertibles are often issued by fast-growing companies. The difficulty of pricing convertibles leads some investors who like convertibles to invest in them via mutual funds.

Convertibles
Taxable bond funds that invest in bonds that can be converted into stock.

Corporate Bonds
Bonds issued by private corporations rather than by governments. Most corporate bonds pay somewhat higher interest than bonds backed by the full faith and credit of government entities, but government bonds usually carry tax advantages.

Jane Bryant Quinn, writing in ""Making the Most of Your Money,"" says you might want to buy a corporate bond if:

1. You're investing with tax-deferred money in your retirement plan and want more interest than Treasuries pay. Corporates are fully taxable by federal, state and local governments.

2. You want a utility bond, for its high and reliable interest payments. Quinn says one of the best ways to invest in corporate bonds is via a good, diversified mutual fund. ""Always remember, however, that to buy a long-term bond fund is to bet that interest rates won't rise over the period that you expect to hold the investment.""

Correction
A sharp, short drop in stock prices, after which the market resumes an upward climb. Of course, when the correction is happening, it's hard to distinguish from the beginnings of a bear market. That's what makes things so interesting.

Correlation
A measure of how closely two variables move together through time. For example, all utility stocks tend to have a high degree of correlation because the same forces influence their share prices. Conversely, gold stock prices are not closely correlated with utility stock prices because the two are influenced by very different factors. Thus, in building a diversified portfolio, investors often try to combine investments that aren't closely correlated with one another.

Cost Basis
The amount invested in a given security or portfolio. It's just the share price multiplied by the number of shares, plus any commission. This figure is important in determining how your investment is doing, as well as for tax purposes.

Cost of Sales
This is the cost of producing whatever it is that the company is selling. Included are materials, labor and overhead. Depreciation and similar charges are not included. Cost of sales data can provide insights into a company's operations and prospects. A maker of screwdrivers whose cost of sales is Rs. 10000/- per item is unlikely to succeed for long.

Coverage Ratio
The ratio of earnings to some given expense, such as interest or dividends paid. If a company is earning less than its dividend payout, for instance, trouble could be looming.

Covered Call
A form of option writing or selling in which the seller owns a quantity of the underlying security equivalent to the number of shares represented by the option contracts sold. A covered call position is less risky than an outright long stock position and is equivalent in its profit/loss profile to selling naked puts.

Credit risk
It's the chance that a borrower won't repay what is owed. Bond-holders face this risk, too. So do investors in money market funds, which are short-term loans in the money markets. But the risk is much greater for bondholders because the term of the debt is longer.

Credit Spread
A strategy used to collect a credit when the spread is initiated. Bullish credit spreads involve selling an out-of-the-money put and buying a further out-of-the-money put for protection. Similarly, bearish credit spreads use out-of-the-money calls.

Currency
The medium of exchange in which prices are quoted.

Currency Hedging
A tool used to protect against the risks posed by worldwide currency fluctuations.

Current (Last) Price
The current trading price of one unit of a particular security.

Current Assets
Cash, accounts receivable, inventory, and other assets that are likely to become cash within a year. Strong businesses usually have lots of current assets, although these can be a drag on performance.

Current Liabilities
Debts or other obligations coming due within a year. These should be less than current assets.

Current Offer
The price at which the owner of a security offers to sell it.

Current Ratio
Current assets divided by current liabilities from the most recent quarter. The current ratio is a measure of the firm's immediate financial health and its ability to meet current obligations. Generally, the current ratio should be 2:1 or higher; the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also, like so many ratios, this one can vary by industry. Restaurant companies, for example, often have current ratios of less than 1:1, but since there is usually a delay between payment for services (which is immediate) and payments to vendors, who typically grant credit, this low ratio raises few eyebrows.

Cyclical Stock
A stock that tends to rise and fall with economic cycles. These tend to be stocks of firms that make heavy-duty items such as steel and automobiles, as well as firms such as airlines whose business increases in boom times. Other cyclicals include fibres, textiles and fertilizers. The problem for investors is that cyclical stocks are usually a leading indicator -- in other words, they run up before an economic upturn, meaning you have to be prescient to really make these work for you. What's more, expectations of a downturn can drag these same stocks right back down. Playing cyclicals effectively is a tough way to make a living.

Daily Volume
Daily volume is one indicator of how liquid a security is. A low daily volume could imply low interest in a stock, a limited float (number of shares outstanding) and/or a highly volatile share price, since even relatively small trades will have an exaggerated effect. Low-volume stocks, also known as thinly traded, generally are seen as riskier than more heavily traded shares. Pay special attention to changes in volume; a sudden increase may mean news about the company has just been issued -- or is foreseen by those in the know.

Day's High
The highest price of the security during the current day's trading. By checking this in relation to the low, you can get an idea of how much the stock is fluctuating

Day's Low
The lowest price of the security during the current day's trading. By comparing to the high, you can get an idea of how much the stock is fluctuating.

Debenture
A bond issued without specific security. In the event of a crisis, holders of debentures take a back seat to other bondholders. To compensate for the added risk, debentures usually pay higher interest than secured bonds, or offer conversion to common stock

Debit Spread
A strategy where the investor buys a call (put) and sells a further out-of-the-money call (put) to create a spread with an initial debit in the investor's account. This is a conservative approach to trading options as it limits both the risk and reward relative to a straight option purchase.

Debt guidelines
In home buying, income or debt guidelines estimate the size of the loan you can get. When you're ready to pass the muster of loan officers, you may later pre-apply for a loan, locking in the interest rate and other terms pending final loan approval.

Debt Ratio
Liabilities divided by assets. The debt ratio is a good indicator of the extent to which a business is leveraged. The lower this number, the more conservative the firm and the less likely it is to be knocked for a loop in hard times. On the other hand, the judicious use of leverage can result in a higher return on assets -- in other words, increased profitability. Like so many ratios, this one varies depending on the industry a company is in. Generally, however, the debt of industrial firms should not exceed roughly two-thirds of equity, or a debt ratio of about 65 percent. This ratio tends to be higher in the transportation and utility industries

Debt Securities
Any security that represents borrowed funds. Bonds are the classic debt securities, and often the loan represented by the bond is secured by the assets of the borrower. Thus, in the event things go sour, the bondholders' claim on assets takes precedence over the stockholders' claim

Debt/Equity Ratio
The most recent quarter long-term debt divided by the most recent quarter common stock equity. The debt/equity ratio is a measure of the extent to which a firm's capital is provided by owners or lenders. Aggressive companies often rely more heavily on debt than conservative companies. A greater reliance on debt can mean greater profitability for shareholders, but also greater risk in the event things go sour. Generally the debt/equity ratio should be 30% or lower, but as with most ratios, this one varies by industry. Companies in industries that aren't very competitive or are subject to tight regulation can afford to carry more debt, as can companies whose markets tend to be reliable. Food makers, for instance, know that people have to eat. But even here, there are caveats.

Decrease/Increase in Other Current Liabilities
The change over time of the ""other current assets,"" a category that includes all other current liabilities that do not fit into short-term debt

Decrease/Increase in Payables
The change over time in accounts payable.

Deferred Income Taxes
A liability arising from the difference between regular accounting and tax accounting. Companies want to show investors the highest possible earnings, but when it comes to the Central Board of Revenue, the idea is to show as little income as possible. Thus, firms can legally choose a depreciation technique that maximizes income for their own accounting and a second technique that minimizes it for the Central Board of Revenue. But in doing so, a company must acknowledge and account for future taxes due, which is the reason for an item called deferred income taxes.

Deferred Sales Charge
A fee charged when you sell mutual fund shares, instead of when you buy them. Also known as a back- end load, these deferred charges typically go down each year you hold the fund, until eventually they reach zero. Deferred sales charges give investors an incentive to buy and hold, as well as a way to avoid some sales charges, but note that 12b-1 fees (if any) and management expenses would continue to be levied

Depreciation and Amortization
A non-cash charge that reduces the value of fixed assets due to wear, age or obsolescence. This figure also includes

amortization of leased property, intangibles, goodwill, and depletion.

When a company buys a new machine, for instance, it must account for this item as an asset to be depreciated, or written down, over time, rather than accounting for this purchase as an expense akin to, say, payroll. Conservative companies depreciate things as quickly as possible, even though depreciation charges reduce reported net income, and savvy investors are on the lookout for firms that play fast and loose in this gray area (how fast should a motion picture be amortized, for instance?). On the other hand, depreciation has only a limited relationship to reality. Lots of perfectly good assets are fully depreciated, and some items that are depreciated may actually be gaining in value. Depreciation and amortization have the advantage of reducing net income for tax purposes.

Derivative Instrument
Generically, derivatives are investments that are ""derived"" from something else. Options are derivatives, for instance, because the option has an underlying stock, commodity or other asset on which its price is based. Lately, however, the term derivatives has been used to describe highly complex financial instruments that have led to losses for some businesses and local governments, some of whom either didn't know what they were doing or found themselves with a rogue employee.

Difference in Earnings
The difference in Earnings Per Share (EPS) between what analysts were predicting for the company and what the company actually reported.

Direct Purchase Plan
A direct purchase plan (DPP) allows you to buy stock directly from the company itself, without paying a broker's sales commission.

Diversification
An investing strategy that seeks to minimize risk by diversifying among many types of investments. Diversification and risk are directly related to each other because the more you diversify your portfolio, the less risk you have.

To illustrate, say all of your money was wrapped up in the stock of one particular company -- XYZ Corp., the largest automobile maker in the world. This would be a risky proposition for three main reasons. First, the value of XYZ's stock could be adversely effected by weakness in the overall stock market. Second, the value of the stock could suffer if the automobile industry as a whole falls onto hard times. And finally, even if both the stock market and the industry are doing great, the value of XYZ Corp.'s stock could tumble for a variety of other reasons unique to the company such as an unexpected shutdown of its plants, the loss of a key customer, or even the death of one of its key executives.

If you instead had a little of your money in XYZ Corp.'s stock, a little money in a diversified mutual fund that owns several stocks, a little money in bonds and a little in real estate, the chances of your portfolio plunging suddenly would be greatly reduced.

Diversified Emerging Markets
Of course, you probably already learned this lesson when your mother told you, "Never put all your eggs in one basket". These funds have the potential to significantly appreciate in value, but they also can suffer big losses.

Dividend
The distribution of corporate earnings to shareholders. Usually paid quarterly, dividends give shareholders a piece of the action right now, rather than rewarding owners only when they sell (and perhaps not even then). But not all companies pay dividends, and frankly, dividends aren't always desirable. Fast-growing smaller companies typically don't pay dividends, for instance, which is often fine with investors, who may not want any more taxable income now,

and who believe the company can make those earnings grow more effectively anyway. (Dividends are taxable as ordinary income, a higher rate than capital gains, and must be put to work somehow elsewhere.) Dividends typically are paid by larger, more established firms, but some industries pay more than others.

Dividend Coverage
A comparison of earnings and dividend payout to see whether the company has enough money coming in to cover what goes out to shareholders. Dividend coverage should be ample; a company earning barely enough to cover its dividend, or even less than the dividend it pays, will sooner or later have to cut its dividend. At the very least, dividend increases are impossible, and management's flexibility with respect to reinvestment and other issues is limited.

Dividend Growth
The compound annual growth rate of dividends per share.

Dividend Rate
The annual rupee amount of the dividend per share.

Dividend Reinvestment Plan
A system whereby dividends on a stock are automatically reinvested in additional shares of stock, usually without fee and sometimes even at a discount.

Also known as DRIPs, dividend reinvestment plans are justly popular with investors. For one thing, they solve the problem of how to reinvest dividends, which are typically paid in cash. For another, they offer a way to increase your stock holdings at minimal expense and effort.

Dividend Yield
A stock's dividend expressed as a percentage of the share price. A high dividend yield can be an indication that a stock is undervalued -- or it can imply that a dividend cut is in the offing.

Dividend Yield (5-year average)
The sum of the past five fiscal year-end dividend yields divided by 5

Dividends Paid per Share
The cash payment per share made by the company to its shareholders. Payment is usually made quarterly.

Double Bottom
For technicians, this is when a stock falls, bounces back, falls again to the same level and then rebounds once more. The twice-touched low is considered a support level. The graph of this phenomenon is vaguely like a W.

Double Top
For technicians, the term used to describe what happens when a stock tests a given high level twice. This level is considered something of a ceiling. The graph of this phenomenon is vaguely like an M.

Earnings
Another word for profit, or net income, in this case the sum of the trailing four quarters' net income from continuing operations and discontinued operations.

Since many investors use earnings reports to make their investment decisions, there is an unfortunate tendency for companies to try to put a positive ""spin"" on their earnings reports by whatever methods necessary. Investors need to understand the different types of earnings presentations to get a clear picture of a company's financials. There are three types of earnings often presented:

1. Actual earnings. What a company earned including all current revenue and expenses.

2. Operating earnings. Includes only revenue and costs from on-going operations. Excludes one- time non-operational charges such as gains or losses on sales of assets or one-time acquisition costs. Inventory write-downs and currency impacts are to be included in operating earnings (though the market often views them as special).

3. Pro-forma earnings. Compares current quarter costs and losses against similar accounting practices and similar categories from the prior period. Excludes revenue and costs from operations that were not in the comparable quarter.

Earnings Estimates
Analysts' estimates for earnings per share from continuing operations, adjusted to exclude extraordinary items.

Quarter and Fiscal Year EPS Estimates are what analysts expect the company to earn per share for the next fiscal quarter or year. Compared with earnings for the year-ago period, this is a useful indicator not only of the company's ability to turn a profit, but of how fast it is growing

Earnings Growth
The percent change in earnings projected for a company over some given period. Growth rates for the fiscal year following the current fiscal year are calculated as the percent change between the estimate for the current year and estimate for the following year

Earnings Per Share (EPS)
Net income divided by common shares outstanding. A company that earns Rs.1 million for the year and has a million shares outstanding has an EPS of $1. This EPS figure, which represents how much of earnings each share is entitled to, is important as the basis for various calculations an investor might make in assessing a stock's price. The most widely used indicator of whether a stock is over- or undervalued, for example, is the price/earnings (P/E) ratio, which relates share price to earnings per share.

Earnings Surprise
The difference between what analysts expected a company to earn and what was actually earned. Earnings estimates have gained importance in recent years, and companies that don't measure up often find their shares hammered. (The difference can also be expressed as a percentage.)

EBIT
Earnings before interest and taxes. This is the figure for operating income after depreciation but without allowing for debt service or what is owed to the government for taxes.

EBITDA
Also known as operating profit before depreciation, EBITDA is the operating revenue less cost of sales, operating expenses, and SG&A expenses.

Effect of Exchange Rate Changes
Includes any gains/losses from the translation from foreign currency to Pak Rs.

Elliott Wave Theory
Inspired by forces of nature, Ralph Nelson Elliot observed that the movements in the stock market could be predicted by identifying a repetitive pattern of waves using price charts. The underlying premise of the Elliott Wave Theory is that of building up and tearing down. He concluded that there are five price-change waves in the direction of the main trend followed by three corrective waves, often referred to as a ""5-3"" move.

Emerging Markets Fund
An international mutual fund that invests in developing countries, such as those in Southeast Asia and Eastern Europe. The economies of many such emerging nations are growing fast, and buying shares in an emerging markets fund offers you a chance to cash in on that growth. But those same countries are also extremely volatile economically and politically, so emerging markets funds tend to be more risky than those that invest in American companies.

Employee Stock Purchase Plan (Espp)
A plan that enables employees to purchase company stock at a discount to the fair market value.

Energy Sector
A category that includes oil and natural-gas companies

Entry Level
A term used to specify the recommended price at which to purchase a stock or option. For example, an advisory service may say ""Our recommended entry level for XYZ stock is Rs.100.""

EPS (1-year growth rate)
The year-to-date percent change in earnings per share

EPS (latest 12 months)
The sum of the last four quarters of earnings per share

EPS Estimate (QTR., FY)
The average estimate for the quarter or year by analysts covering a given company

EPS Growth Next Year
This is calculated using the formula 1-(estimate for the next year/estimate for current year)

EPS Growth Quarter vs. Quarter
The percent change between current quarter EPS versus the same quarter one year ago.

EPS Growth Year vs. Year
The percent change between annual EPS versus EPS one year ago

EPS Growth YTD vs. YTD
The percent change between the current year-to-date EPS versus the year-to-date EPS figure of one year ago.

EPS Percent Change
The difference between the latest fiscal year EPS from total operations and the EPS from total operations one fiscal

year ago, expressed as a percentage

Equity
Your equity is the market value of your property, less the amount you owe on it and must repay when you sell.

Equity Securities
Any security that represents an ownership stake rather than an IOU. Equity securities include common and preferred stock. Bonds are not equity securities; they are simply loans to the company. Bondholders can expect repayment of principal from the business, while stockholders hope for dividends and price appreciation. In the event the business goes bad, the bondholders have a claim on the company's assets that supersedes the claims of equity holders

Estate
Everything you own -- house, bank accounts, investment portfolios, life insurance, personal property, etc.

Estate planning
An overall strategy that coordinates the disposition of everything you own -- house, bank accounts, investment portfolios, life insurance and retirement plans.

Europe Stock
A Morningstar category for international equity funds with at least 75% of their stock holdings in Europe. Regional funds may be riskier than diversified international funds as profits tend to rise and fall in concert with that region's economic conditions.

European Currency Unit (ECU)
A medium of exchange (currency) in which prices is quoted in Europe.

European-Style Option
An option contract that may be exercised only during a specified time period just prior to its expiration.

Eurotop 100
The EUROTOP 100 Index (EUR) is a benchmark tracking the performance of the European stock market. It is comprised of 100 of the most actively traded and highly capitalized stocks on the largest exchanges in nine European countries: Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, and the United Kingdom. It is denominated in U.S. dollars.

Even Lots
Transactions where stocks are purchased or sold in multiples of 100 shares also referred to as round lots. It's best to buy or sell stocks in even lots rather than odd lots (less than 100 shares or not a multiple of 100) since most brokers charge a higher commission on odd-lot orders

Ex-Dividend
A stock is called "ex-dividend" when buyers are no longer entitled to receive the last declared dividend. Typically, the price falls to reflect the value of the dividend and then rises again later, as shareholders look ahead to the next payout.

Exchange
The organization that provides for the trading of the listed security. The biggest, most established companies generally trade on the Karachi Stock Exchange, but many giants and other companies also trade on the Lahore & Islamabad

Stock Exchanges.

Exit Level
A term used to stipulate the recommended price at which to sell a stock or option. For example, an advisory service might say, ""Our recommended exit level for XYZ stock is Rs.100.""

Expectational Analysis
An approach to investment analysis that takes into account and measures the beliefs of investors and speculators relative to the prevailing technical trends and fundamental facts, in order to try and gauge the future direction of stock prices. According to contrarians, when the public is bullish, it's time to sell. Similarly, when the public gets bearish, it's time to buy. Historically, this has been true.

Extraordinary (Gains) Losses
Includes income (or losses) from events and transactions that are, as the name implies, extraordinary. A retailer might settle an expensive lawsuit, or sell a poorly performing mail-order operation. These items don't happen every day or even every year, and so are separated from operating results.

Extraordinary Income
Income from events and transactions that are, as the name implies, extraordinary. A retailer might settle an expensive lawsuit, or sell a poorly performing mail-order operation. These items don't happen every day or even every year, and so are separated from operating results.

Family of Funds
A group of mutual funds run by a single company.

Fibonacci Studies
A series of technical analysis studies where charts and numeric relationships are used to pinpoint high and low price levels for a security. There are four popular Fibonacci studies: arcs, fans, retracements, and time zones. The interpretation of these studies involves anticipating changes in trends as prices near the lines created by the Fibonacci studies.

Fiduciary
A person holding a position of confidence, such as a trustee, guardian or executor.

Financial Adviser
Financial advisers focus primarily on your investment portfolio whereas financial planners become involved with all of your assets. Financial advisers recommend stocks, bonds, mutual funds or other investments that fit your goals and risk level. And if you agree to open a ""discretionary"" account, the adviser can invest your money without first getting your permission.

Financial Planner
Unlike financial advisers, financial planners become involved with all of your assets -- not just stocks and bonds, but real estate, insurance, even collectibles and college-savings accounts. They often formulate trusts and provide tax advice. Most planners work independently or in a group practice. However, some are full-time employees of banks, brokerage firms, insurance companies and the like.

Financial Sector
A category that includes banks, brokerage firms, thrifts, insurance, and real estate companies

Financing Activities
The sale or purchase of a company's own stock or bonds, payment of dividends and any other finance charges incurred in the company's operations

Fiscal Year (FY)
The 12-month accounting period of a business. For various reasons, the fiscal year is often different from the calendar year. This is especially the case in some seasonal businesses, such as retailing.

Fixed Asset
An asset that can't be instantly liquidated. Buildings, factories, etc. are fixed assets. Cash is the quintessential liquid asset.

Fixed Cost
A cost that doesn't vary. The cost of owning a warehouse, for instance, might be the same whether it is full or empty. It's important in assessing a company to differentiate between fixed costs, variable costs and marginal cost.

Foreclosure
The process of satisfying claims against someone who has defaulted on a loan, such as a mortgage. It usually involves the forced sale of the property to satisfy payment of the loan.

Foreign Exchange Rate
The price at which one currency trades for another.

Foreign Exchange Risk
The risk that a long or short position in a foreign security may be adversely affected by a change in the value of the foreign currency.

Forward Year P/E
A price/earnings (P/E) ratio calculated on the basis of expected earnings for the coming year

Free Cash Flow
This is cash flow from operations minus capital expenditures minus cash dividends paid -- at least in the view of some analysts. The truth is that opinions differ about what constitutes ""free"" cash flow and how -- or whether -- it differs from conventional cash flow. The premise behind backing out capital expenditures and dividends is that these are optional and therefore should be set aside to see how much income a company is really generating. The dividend could always be suspended, after all, and even capital intensive firms can usually limp along for awhile on reduced capital outlays. The goal is the same as with cash flow: to look behind the smoke and mirrors sometimes associated with net income

Front Load
A fee levied by a mutual fund company on new investments. A front-end load is charged up front, as opposed to a back-end load, which is levied when you sell. There is no evidence that mutual funds charging hefty loads outperform no-load funds, and the latter have been gaining popularity in recent years.

Fully Diluted Earnings Per Share
Earnings per share that takes account of all the common stock that would exist if convertible securities were traded in for common shares.

Fully Diluted EPS from Continuing Operations
Earnings from continuing operations divided by the fully diluted shares outstanding (given the dilution effects of any convertible debentures, warrants, and so on). This excludes income from discontinued operations and extraordinary gains and losses.

Fully Diluted EPS from Discontinued Operations
Earnings from discontinued operations (during the reporting period) divided by the fully diluted shares outstanding (given the dilution effects of any convertible debentures, warrants, and so on). This excludes income from extraordinary gains/losses.

Fully Diluted EPS from Total Operations
Earnings for the most recent fiscal year from total operations (continuing operations plus discontinued operations) divided by the fully diluted shares outstanding (given the dilution effects of any convertible debentures, warrants, and so on). This excludes income from extraordinary gains and losses.

Fund Inception Date
The date a mutual fund initially became available.

Fund Manager
The person responsible for investing the monies of a mutual fund. Some funds are run by one person, others by committee.

Fundamental Analysis
An investing approach where an investor tries to choose winning stocks by studying a company's earnings history, balance sheet, management, product line and other factors that will affect its profitability and growth. This approach sets fundamental analysts apart from technical analysts, who study previous trading patterns to forecast which direction (up or down) a stock or the market itself will head in the future.

Futures Options
Options on futures are contracts giving the holder the right to buy or sell a specified futures contract at an agreed-upon price before a specific expiration date. If things go your way, you can exercise the option, buy the futures and turn a handsome profit. If you guess wrong, you can let the option expire. In that case, all you would lose would be the price you paid for the option: You wouldn't be responsible for the much bigger losses on the futures

Gain/Loss
The profit or loss on a given security or portfolio expressed in ruppees. This is calculated as market value minus cost basis.

Gain/Loss %
The profit or loss on a given security or portfolio expressed as a percentage. This is calculated as market value minus cost basis divided by cost basis.

General Obligation Sector
A category that includes general obligation bonds, which are repaid from general revenue and borrowings rather than from the revenue of a specific project or facility.

Good-Till-Cancelled Order

A good-till-cancelled (GTC) order is a limit order that stays on the books of the exchange-trading floor until executed or until cancelled by the investor.

Gross Domestic Product (GDP)
The total value of goods and services produced by a nation within that nation.

Gross Margin
Gross operating profit divided by sales. Gross margin is a good way to assess the profitability of the company's core operations, aside from depreciation and other machinations and contingencies. To get an idea how the company's current gross margin stacks up, compare it to the five-year average, also given.

Gross National Product (GNP)
The rupee value of all goods and services produced in a nation's economy, including goods and services produced abroad.

Gross Operating Profit
Operating revenue minus cost of goods sold. What's left is the profit earned on selling whatever it is that the firm sells.

Gross Profit
Revenue minus cost of goods sold.

Gross Sales
Total sales without making allowance for returns, discounts and shipping expenses. This can differ substantially from net sales. In book publishing, for instance, booksellers return an enormous proportion of the books shipped to them.

Growth And Income Funds
Growth and income mutual funds invest in both equity and debt securities, mainly for the purpose of producing current income. These funds typically invest no more than half their assets in stocks. Income can come from a variety of sources, with widely differing risks, and so to achieve their goal of providing current income, funds use a wide variety of investment styles and asset mixes. The volatility of individual funds will vary depending on the source of their income. For example, Oppenheimer Strategic Fund has at times had almost 90 percent of its assets in bonds, while Value Line Income Fund has held as much as 75 percent of its assets in stocks. If you are looking for income, think twice before simply choosing the highest payer. Consider whether a given fund will not only add income to your portfolio, but will also have the potential for growth. Within the income funds group are funds to suit almost every investor. Look for the fund with the asset mix, return and risk level that meets your particular needs.

Growth Persistence
A measure of how consistently a mutual fund has outperformed its equity or fixed-income peers. Value Line's calculation of growth persistence rewards a fund only for its consistency of outperformance; the measure does not take into account the degree of outperformance. The calculation produces a raw number; this number is then ranked against those of the fund's peers in order to derive a comparative ranking that is useful in measuring a fund's historical record of relative performance. The growth persistence figures are also a component of Value Line's Overall ranks.

Growth Rate
The rate at which a company's stock price, earnings, revenue, and/or sales has changed or is expected to change in the future. In looking at a stock, one tends to look at earnings growth and revenue growth. Earnings growth usually is the paramount consideration, and investors often look not just at a stock's P/E ratio, but at the ratio of price to anticipated growth. This is one reason companies that report slower-than-expected earnings growth are so often pummeled on the

Stock Exchange. Staying in the realm of what is known, many investors like to see a company that has achieved consistent earnings growth; earnings growth from increased revenue rather than cost-cutting (although of course they like cutting costs); earnings growth that exceeds population growth and inflation; and earnings growth even in hard times. As for revenue growth, many of the same ideas apply, with the caveat that if revenue is growing much faster than earnings it could be a sign of aggressive discounting, out-of-control costs, unmanageably fast growth or other problems.

Growth Stock
The stock of a company that maintains consistently faster-than-average growth.

Head and Shoulders
For technicians, a chart pattern indicating a peak, a decline, a second even higher peak, a decline, a rebound to the level of the first peak, and yet another decline. A head and shoulders pattern is supposed to be bad news, indicating the stock is headed downward.

Health Sector
A category of companies that includes pharmaceutical, health-care services, medical devices, and drug wholesale companies.

Hedge Fund
A risky investment pool, generally open only to well-heeled investors, that seeks very high returns by taking very great risks. Hedge funds typically are free to engage in all sorts of investment gymnastics in pursuit of returns that should (but don't always) dwarf those available simply by investing in stocks. Hedge funds will short stock, use leverage, options, futures, etc. Hedge funds are usually partnerships whose general partner, sometimes a famous money-manager or wheeler-dealer, gets a bigger cut of the profits as incentive and reward.

Hedge/Hedging
A method, often sophisticated, employed to minimize investment risk. Holders of a given stock might reduce risk on a relatively basic level, for instance, by buying a put option or selling a call option on that same stock; if the stock goes down, the option will rise in value, providing a ""hedge"" against losses.

High Estimate
The highest of the given earnings estimates by any analyst.

High Yield Bond
A Morningstar category for taxable bond funds with at least 70% of their portfolio invested in high-yield corporate bonds. These are risky bonds with poor credit ratings, typically rated by Standard & Poor's and Moody's below BBB. Also known as junk bond funds.

Housing Sector
A category that includes single and multifamily housing companies.

In-The-Money
An option with intrinsic value. A call is in the money when the market price of the underlying security is greater than the options strike price. A put is in the money when the market price of the underlying security is less than the options strike price.

Inception Date
The date the mutual fund was started or first offered to the public.

Income (1-year growth rate)
The year-to-date percent change in net income versus the same period a year ago.

Income (last 12 months)
The sum of the last four actual quarters of net income from total operations. This calculation is the same for income from continuing operations.

Income From Continuing Operations
Income from operations that remains ongoing. This figure excludes income from operations that have been closed or sold.

Income from Cumulative Effect of Accounting Change
Gains or losses from changes in accounting for depreciation or inventory methods.

Income from Tax Loss Carry forward
This occurs if a company has had a net loss from operations in a previous year that can be carried forward to reduce net income for tax purposes.

Income From Total Operations
Income from all operations, including those that have been discontinued or sold off.

Income guidelines
In home buying, income or debt guidelines estimate the size of the loan you can get. When you're ready to pass the muster of loan officers, you may later pre-apply for a loan, locking in the interest rate and other terms pending final loan approval.

Income Per Employee
Profits divided by number of workers. Labor is a huge expense for most businesses, and this figure can give some idea of how effectively a company can turn the wits and brawn of its workforce into earnings for shareholders.

Income Statement
A financial statement that shows revenue, expenses and profit during a given accounting period, usually either a quarter or a year. Along with the balance sheet, the income statement (also known as the profit and loss statement, or P&L) is Exhibit A in assessing the health and prospects of a company. Basically, what the income statement shows is revenue and expenses, including operating expenses, depreciation, income taxes and extraordinary items. Using the income statement, an investor can quickly figure cash flow, profit margins and other important indicators of how the business is doing. That said, it's important to remember that accounting is as much an art as a science, and the income statement is often the result of some important judgment calls by both management and the company's auditors. These judgments can substantially affect a firm's showing in a given period. Thus, it's important to read the footnotes, since these often disclose the kinds of judgments that were made, as well as other material information.

Income Stock
An income stock is one purchased primarily for income, which is paid out in the form of dividends. Income stocks tend to be among the least volatile of all stocks, and many investors view them as defensive in nature. These are typically very large, established firms, often in staid or highly regulated businesses. The advantage of income stocks, in addition

to their stability, is that even if the stock isn't doing much, you're getting that nice regular dividend. Yet unlike a bond, the stock still gives you some potential for capital appreciation as well. The down side is that such stocks can be sensitive to rising interest rates, which make the dividend look less attractive versus riskless Treasury securities and certificates of deposit. Such stocks can also be sensitive to inflation, which erodes the buying power of the dividend. Also, industries that once looked very stable have become less so in a deregulated and increasingly global economy.

Income Taxes
Income taxes paid, net of any investment tax credits.

Increase/Decrease in Inventories
Change in inventories over time. Rising inventories could be a red flag indicating slowing sales and coming markdowns. On the other hand, many businesses will have rising inventories going into the hectic Eid selling season. In general, inventories are merchandise bought for resale and supplies and raw materials purchased for use in revenue-producing operations.

Increase/Decrease in Other Current Assets
The increase or decrease between periods of the other current assets. Other current assets include current assets that are not assigned to accounts receivable and inventories. This category typically includes prepayments, deferred charges, and amounts (other than trade accounts) due from parents and subsidiaries.

Increase/Decrease in Receivables
Change in receivables over time. Receivables are amounts owed to the company. Rising receivables could indicate growing sales, but might also be a sign that debtors are paying more slowly.

Index
A composite of securities that serves as a barometer for the overall market or some segment of it. The best known of these are the KSE-100 INDEX and the ALL SHARE INDEX, both of which reflect the performance of large Pakistani companies. Many indexes are much more specific. There is an American Stock Exchange Biotechnology Index, for instance, as well as indexes for emerging markets, long-term treasury bonds, and individual markets overseas (the Nikkei, for instance, in Tokyo). Index investors simply try to match a given index, keeping expenses low and acknowledging that it's tough to beat the market. Using the appropriate index, investors can gauge how well they (or their mutual funds) are doing.

Index Fund
A mutual fund that seeks to passively match the performance of some market index. Index investing is based on the theory that all information about stocks is known and discounted in market prices and that, over the long haul, it is virtually impossible for an active manager, hampered by the expenses of running a fund, to beat a broad market indicator. In fact, indexing has become extremely popular in recent years as investors have noticed how frequently the S&P 500 has trounced actively managed funds. One reason is that index funds have very low expenses, since there are no high-priced analysts or stock-pickers needed. Another reason is that index funds do very little trading, which saves commissions. There are now index funds for small-cap stocks, international stocks, corporate bonds and other categories of investing, all offering simply to match the market. The key to choosing an index fund is to pick the one with the lowest fees.

Index Option
An option on a stock index, usually the Standard & Poor's 500. Basically, these are a way to bet on the direction of the market. They can also be used to hedge against risk. Options on market-sector indexes are also available.

Industrial Development Bond
A municipal bond secured by the creditworthiness of a private business rather than a government entity. These bonds are issued by local governments to attract new businesses or help local businesses expand. Such bonds offer the usual tax-exempt interest, but are generally considered riskier than bonds secured by the full taxing power of a stable, solvent local government.

Industrial Sector
A category that includes economic and industrial development, pollution control, resource recovery, conventions, expositions, stadiums and hotels.

Industry
This gives an indication of the field in which the company operates. For example, PTC is in the Telecom industry.

Inflation risk
The risk that our money will not be worth as much in the future. That's because the cost of the things we need to buy, such as like housing, clothing and medical care all increase. Guaranteed investments like bank accounts do not keep pace with inflation.

Initial Public Offering
The first stock sold by a company in going public. IPOs are a standard feature of runaway bull markets, since there is proven demand for stock and it makes sense to sell shares when they are likely to bring the highest prices. IPOs are probably the focus of more attention than they deserve, in part because the hottest IPOs can make their purchasers a quick profit by soaring soon after trading begins. In most cases, though, these early gains soon evaporate, and besides, such desirable IPOs are made available mainly to the most cherished customers of the underwriting firms bringing out the offering. IPOs are a risky business.

Institutional investor
An institutional investor manages large amounts of money for a big organization. Mutual fund, pension fund managers and insurance companies are institutional investors.

Institutional Ownership
Percent of a company's shares owned by banks, mutual funds, pension funds, insurance companies and other institutions, all of them characterized by a propensity to buy and sell in bulk. Big institutional trades are having an increasing impact on the securities markets as the institutional share of savings increases. Their size and clout gives them more influence than most individual investors could hope to have, and it is usually exercised for the benefit of all stockholders in a given concern. Institutional ownership is a sign of legitimacy for a public company, and liquidity for its shares. It implies that a firm has gained access to vast pools of capital controlled by institutional investors -- capital that might not be otherwise available. On the other hand, some analysts see a large percentage of institutional ownership as a negative, presumably because they figure it's a sign they're too late to get a jump on the crowd.

Intangibles
Items such as goodwill, or patents, those are neither physical nor financial in nature. These have value, but that value often is difficult to determine. A company with a large proportion of its assets consisting of intangibles should be approached with care.

Interest Expense
The cost of interest on outstanding debt. Here, it includes all fixed interest expenses net of capitalized interest. Also includes dividends on preferred stock of unconsolidated subsidiaries, if any.

Interest rate risk
All investors are affected by interest rate risk or the chance that interest rates will change the value of their investment. But interest rates have the greatest impact on bonds. When rates rise, the value of bonds fall. And the longer the term of the bond, the more it falls. So an increase in interest rates will have a much greater impact on a 30-year bond than on a five-year bond.

Interest-Sensitive Stock
A stock whose price is very much affected by rising or falling interest rates. Companies in a number of industries have fortunes tied to rates. Auto makers, home builders, mortgage lenders, financial institutions and others find that when rates soar, their business dries up. But some stocks can show rate sensitivity even in an industry not known for such problems. These are stocks that pay hefty dividends. Such stocks often are purchased specifically for their dividend. When rates fall, this dividend looks even better. But rates rise, this dividend is less appealing compared to Treasury securities and other riskless investments.

Intermediate Bond
Intermediate term bonds have a maturity roughly between seven and 15 years, although some people consider even five-year bonds to be intermediates. Intermediate term Treasury bonds are favorites of cautious investors because, historically, they have yielded almost as much as 30-year Treasuries, yet the shorter-term bonds fluctuate much less with changing interest rates. That is, when rates rise, the value of longer-term bonds falls more than that of shorter-term bonds. Intermediate term municipal bonds and intermediate bond mutual funds are also available.

International Funds
Mutual funds that invest in stocks and/or bonds of companies outside the country. International funds pose some unusual risks. In addition to choosing the most promising foreign companies, fund managers must also hedge against currency fluctuations and sometimes must even consider political unrest.

International Hybrid
A Morningstar category for international equity funds that invest at least 20% but less than 70% of their portfolio in stocks, with at least 40% of all stock and bond investments in foreign countries. These funds diversify investments across several countries and regions, presenting less risk than a regional fund. That's because the financial markets of different countries don't always move the same way.

Intrinsic Value
The difference between an in-the-money option strike price and the current market price of the underlying security.

Inventories
Merchandise bought for resale or supplies and raw materials purchased for use in revenue-producing operations. Changes in inventories could be a clue to a company's changing circumstances or fortunes. For example, rising inventories might indicate that sales are slowing. Remember, holding inventory costs money, both in terms of interest on capital tied up in widgets until they are sold, and in terms of expenses associated with warehousing all those widgets until they can be unloaded.

Inventory Turnover
Latest 12 months' cost of sales divided by the average inventory from the most recent quarter and the year earlier quarter. The resulting inventory turnover rate is an indicator of how well the company's products are succeeding in the marketplace. In general, the higher this number, the better.

Investing Activities

A company's investing activities. Refers to cash derived from (or used in) securities investments and asset purchases and sales.

Investment Category
This gives an indication of what the fund invests in, whether it be European stocks, intermediate- term bonds, small-cap growth stocks or any number of other choices.

Investment Club
A typical investment club is a group of individuals -- often neighbors, co-workers or friends -- who agree to contribute a fixed sum each month to the club's investment pool. The money is used to buy stocks, bonds or to make other types of investments. If you're nervous about picking your own stocks and don't like the idea of working with a stockbroker, an investment club might be for you.

Investment Limited Partnership
A group of individuals who pool their money for the purpose of investing. Profits from the investment, as well as tax deductions and other items, are usually then split according to each investor's interest in the pool. Virtually all partnerships have a general partner, who is usually responsible for the day-to-day duties involved in running the partnership's investment. The general partner usually has total liability, while the investors--known as limited partners--are liable only for the amount they put in. Although partnerships can be formed to invest in just about anything, they usually invest in real estate, oil and gas exploration and development, and equipment that are leased to others. Some partnerships are also designed to provide start-up capital for companies with promising products.

Issuance of Capital Stock
Proceeds from issuance of both common stock and preferred stock.

Issuance of Debt
Proceeds from company borrowing.

Junk Bond
A debt security that pays investors a high interest rate because of its high risk of default. Junk bonds aren't for everybody or even most people, but they aren't all bad. They provide less than rock-solid firms with access to credit, and a broadly diversified portfolio can reduce the risk of any one bond's default while providing high portfolio interest. But beware: junk bonds really are risky. In addition to the unusually high credit risk (and the usual interest-rate risk associated with all bonds), junk bonds are susceptible to the winds of economic fortune. When a downturn is anticipated, many investors shun the bonds of companies that might not be able to pay interest or principal if business should turn sour. Thus, the price of your junk holdings would fall under such circumstances. Given the uncertainties, some junk-bond investors prefer a good mutual fund, which will do the work of credit analysis and diversification for you.

Key Support
A price level for a security or index that may signal a major change in market direction or sentiment if it is penetrated.

Laddering
The practice of reducing market risk by owning a series of bonds of staggered durations.

Last
The current trading price of one unit of a particular security.

Last Trade Size
The most recent number of shares traded of the security.

Last Updated
The time a quote was provided.

Latest Dividend Rate
If a company's board has committed to dividend payments in the future, the latest reported dividend rate equals the number of times the company pays dividends per year times the latest dividend, expressed in ruppees. If a company's board has not committed to dividend payments in the future, the latest reported dividend rate equals the total dividends paid in the past 12 months.

Latest Fiscal EPS
Earnings per share for the most recent fiscal year.

Latest Quote
The most recent trade price (buy or sell) for a stock, as reported by all exchanges.

Leading Economic Indicators
A compendium of previously announced economic indicators: new orders, jobless claims, money supply, average workweek, building permits, and stock prices.

Leverage Ratio
Total assets divided by total stock equity. This figure gives some indication of how highly leveraged a company is. If the ratio is high -- if assets far exceed stock equity -- then the company is quite leveraged. This can be lucrative during good times, when borrowed assets earn more than they cost, but if things go bad the company could have trouble servicing the debt implied by all this leverage.

Leveraged Buyout
A leveraged buyout, or LBO, is the purchase of a company using a large amount of debt -- much of it short-term bank borrowing secured by the assets of the company itself. After the acquisition, the acquired company typically issues bonds to pay off a portion of the debt created by the takeover.

Liability
The opposite of an asset, a liability is an obligation to pay. Thus, short-term debt, long-term debt and certain other obligations appear as liabilities on a company's balance sheet.

Limit Order
When you instruct your broker to buy shares for you at or below a certain price, or sell shares at or above a certain price, you've entered a limit order. Limit orders reduce the risk that an order will be filled at a price you don't like, and since most stocks move around a little on any given day, you can often get an extra 1/8 of a point in your favor just by entering a limit order and being patient. The down side, of course, is that by waiting for your price the stock you want gets away from you, or the stock you want to unload just keeps falling. The opposite of a limit order is a market order, in which the broker is instructed to execute the trade at any market price available.

Line Charts
A chart that displays only the closing price for a security for each time period. A line connects closing values from each

period. Often used for plotting mutual funds, which typically only have a daily close value. Over time, these points present a telling performance history for the security.

Linear Regression Channels
A technical indicator used to determine the trend a security is developing and the likely price range that will take place within that trend. The channel is created using a price history chart and consists of an upper line, a middle line, and a lower line. The upper channel line is created by connecting a series of recent high price points in a straight line, the middle line by connecting intermediate highs and lows, and the lower channel line by connecting a series of low price points. Primarily the top of a channel line tends to act as a resistance level much like a moving average might. When the stock hits the upper line, it usually moves down or "regresses" to the lower or middle line. Consequently, the lower end of the channel tends to act as support. The middle line acts as a median, giving a central point to watch how the stock reacts - does it tend to gravitate more towards the lower line or the upper line of the channel? The channel provides a picture of the overall trend of a stock, whether it is in an uptrend, downtrend, or just consolidating.

Liquidity
Cash and assets easily converted to cash are liquid assets, and liquidity is the extent to which an individual or firm can produce cash when necessary. A high degree of liquidity implies that a company isn't immediately going to fail in the event of a downturn in its business or the economy. That means increased safety for investors, but it comes at a price: cash and cash-like assets usually produce the lowest returns. Thus, a company sitting on a large pot of cash suffers reduced profitability compared to a similar company with all its assets brought to bear on its profitable business activities.

Liquidity Ratio
A measure of how much trading in a given stock has to happen for the price to change by 1%. The liquidity ratio is figured by adding up the daily percentage change in closing price for each trading day of the month, regardless of direction. This number is divided into the total dollar volume for the month. The higher the resulting number, the more liquid the stock, and thus the more attractive it becomes for conservative investors and institutions whose large trading might otherwise move the market too much.

Load Fund
A mutual fund that charges a commission, or ""load,"" every time you buy new shares. Usually, load funds are purchased through stockbrokers and financial planners.

Lock-Limit
The lock-limit is the tool the exchanges use to protect investors in a whirlwind market. If a contract price moves up or down to the pre-established price limit, the market ""locks up"" or ""locks down"" and doesn't open up again until the price returns to an acceptable level. The idea is to prevent prices from swinging too wildly.

Long Bond
A long bond is one with a long maturity, say 15 to 30 years (there are even some 100-year bonds floating around, and recently a 1,000-year issue was reported). But the long bond, in the language of Wall Street, is the 30-year Treasury Bond. In general, long bonds offer a chance to lock in an attractive yield, and longer term bonds usually pay a higher rate than shorter term issues. But intermediate term bonds offer most of the advantages with less interest rate risk. That's one reason long bonds are especially suitable to investors who choose to speculate on the direction of interest rates; long-term bonds fluctuate the most for any unit of change in rates.

Long-Term Debt
Long-term debt is debt due in more than a year. The artful use of such debt can enhance profits, but also exposes the company and its investors to greater risk in the event that things go sour.

Low Estimate
The lowest of the given earnings estimates by any analyst.

Managed Futures
A managed account or fund in which professional money manager’s trade futures and forward contracts. Futures and forward contracts may represent agricultural products, bonds, cattle, currencies, financial instruments, gold, hogs, oil, silver, stock indexes and so on. They are actually contracts of delivery or receipt for a particular commodity between the seller and buyer of the contracts. You may trade these contracts individually, assuming all of the potential risk and reward for each contract, or invest collectively with other individuals in a managed account or fund, thus sharing the potential risk and rewards of many different contracts among investors.

Manager Tenure
How many years a mutual fund manager has been running the fund. This is useful for determining how much of a fund's performance is attributable to its current management. A tenure of zero means the manager has been running the fund for less than one year.

Margin Account
A brokerage account that lets an investor buy securities on credit or borrow against securities held in the account. Interest is charged on such borrowing, but usually at attractive rates compared with other forms of debt. Trading on margin can enhance investment returns considerably, but like all leveraged activities, can also backfire -- if your stocks go down, for instance. The trick is to make more investing the borrowed funds than they are costing you. SECP & Stock Exchange regulations limit the extent to which margin can be used in equities trading.

Margin Call
A somewhat dreaded call for additional capital to bolster the equity in an investor's margin account. Say you've bought 100 shares of XYZ Corp. at Rs.10 each, for a total of Rs.1,000. You borrowed half of this from your broker. Now let's say XYZ falls to Rs.9. That means Rs 900 in equity is available to cover a Rs.500 debt, which sounds fine except the broker might require that lending not exceed 50%. Thus, you're now Rs.100 short of the minimum equity to maintain your margin position. If you can't provide additional cash or securities, the broker will sell your XYZ shares.

Marginal rate
That's the highest percentage rate at which any of your income is taxed. "Marginal" usually refers to the increase you see in one category of anything from an increase in another: In this case, it's the highest tax rate that applies to any of your income exceeding a level set by tax law.

Market Cap. Composition
Breaks down the fund's net assets by market capitalization. Answers the question: What proportion is invested in big companies, small companies, etc.

Market Capitalization
The value of a company's outstanding shares, as measured by shares times current price. Speaking very generally, the larger the market capitalization, the safer the company. Firms with very small market capitalization can be unusually risky.

Market Efficiency
The extent to which securities prices reflect what's known and adjust promptly to what becomes known. With modern telecommunications, a vigorous business press and a large number of buyers and sellers, American securities markets

are pretty efficient, but there is perennial debate surrounding the question: how efficient? Absolutists (advocates of the efficient market hypothesis) contend that the markets are utterly efficient, meaning that all available information is already discounted in prices. The implication is that it isn't possible for an investor to ""beat"" the market without some secret inside information, or perhaps clairvoyance.

Market Order
An order to purchase or to sell at the best available price. At-the-market orders must be executed immediately, and therefore take precedence over all other orders. Market orders to buy tend to be executed at the ask price, and market orders to sell tend to be executed at the bid price.

Market Value (Current)
Also known as market capitalization, this is simply the market value of all a company's outstanding shares (in other words, price times shares). It's a rough estimate of what a company is worth, but bear in mind that someone trying to buy the whole thing would probably have to pay a premium over this figure.

Marketability risk
It's the chance that there will be no ready market for your investment if you want to sell it in a hurry. That's certainly a big risk if you buy a piece of land. Or if you buy a stock that is very thinly traded. But it is not a risk when you buy a mutual fund, which you can sell back on any business day.

Maturity
Maturity is the date on which the bond's principal must be repaid. Note that this is the face amount, regardless of what you might have paid for the issue.

Mean
The annualized average monthly return from which the standard deviation is calculated. The mean will not be exactly the same as the annualized trailing, three-year return figure for the same year. (Technically, the mean is an annualized arithmetic average while the total return figure is an annualized geometric average.)

Mean Recommendation
An arithmetic average of analysts' buy-sell recommendations for a given stock.

Median Market Cap
Gives a measure of the size of companies in which a mutual fund invests. Half the companies in the fund have a market capitalization larger than this number, and half have a market cap that is smaller. (Market capitalization is just the total market value of all outstanding shares.)

Minimum Initial Purchase
The smallest sum a fund will accept to establish a new account

Minimum Subsequent Purchase (Regular)
The smallest additional investment permitted by a given mutual fund.

Minority Interest
Represents par or the stated value of the subsidiary stock not owned by the parent company plus the minority interest's equity in the surplus of the subsidiary. This item includes preferred dividend averages on the minority preferred stock (preferred shares not owned by the reporting parent company). Minority interest also refers to stockholders who own less than 50% of a subsidiary's outstanding voting common stock. The minority stockholders hold an interest in the

subsidiary's net assets and share earnings with the parent company.

Misc. Revenue Sector
A category that includes miscellaneous revenue bonds.

Modern Portfolio Theory
A sophisticated investment approach developed by University of Chicago economist Harry Markowitz, who won a Nobel Prize in 1990, also called ""portfolio management theory"" or simply ""portfolio theory."" According to ""Wealth Enhancement & Preservation,"" ""Portfolio theory allows investors to estimate both the expected risks and returns, as measured statistically, for their investment portfolios. In his article 'Portfolio Selection' (in the Journal of Finance, in March 1952), Markowitz described how to combine assets into efficiently diversified portfolios. He demonstrated that investors failed to account correctly for the variance among security returns. It was his position that a portfolio's risk could be reduced and the expected rate of return could be improved if investments having dissimilar price movements were combined. For example, some companies' stock tends to follow in step with overall economic trends. These are referred to as cyclical stocks. Other companies tend to do well when the economy does poorly, and these are known as counter-cyclicals. Holding securities that tend to move in concert with each other does not lower your risk. 'Diversification reduces risk only when assets are combined whose prices move inversely, or at different times, in relation to each other.' "" In other words, Markowitz explained how to best assemble a diversified portfolio, and proved that such a portfolio would likely do well. Markowitz also proved that, all things being equal, the portfolio with the least amount of volatility would do better than one with a greater amount of volatility.

Momentum
The underlying power or thrust behind an upward or downward price movement. Momentum is represented on a chart as a line that is continually fluctuating above and below a horizontal equilibrium level that represents the halfway point between the extreme readings. Momentum is a generic term embracing many different technical indicators, such as the Relative. The underlying power or thrust behind an upward or downward price movement. Momentum is represented on a chart as a line that is continually fluctuating above and below a horizontal equilibrium level that represents the halfway point between the extreme readings. Momentum is a generic term embracing many different technical indicators, such as the Relative Strength Index and Stochastic Oscillators.

Money Flow
A technical indicator that keeps a running total of the money flowing into and out of a security. Money flow (MF) is calculated daily by multiplying the number of shares traded by the change in closing price. If prices close higher, money flow is a positive number. If prices close lower, money flow is a negative number. A running total is kept by adding or subtracting the current result from the previous total. When using MF to trade, the direction of the MF line is the thing to watch, not the actual rupee amount. This indicator will often confirm underlying strength or weakness of a price trend. It may also signal a top by declining while the stock is still rising; indicating big money is leaving the stock. Conversely, when MF rises in the face of a declining price trend could indicate smart money is moving in and a bottom may be at hand.

Money Market Fund
A highly liquid mutual fund that invests in very short-term securities, such as Treasury bills, certificates of deposit and commercial paper. The share price is kept stable at Rs.1, and interest is paid at competitive rates. Money market funds have been a great succes in the US market and have taken billions upon billions of dollars in deposits away from banks in recent years, even though they aren't government insured. (Total money market fund assets stood at $1.027 trillion for the week ended October 1, 1997.) Many even offer check-writing.

Most-Active List
The stocks with the highest trading volume on a given day.

Moving Average
The average price of a security over the previous days or years. For example, a 50-day moving average is the average price of a security over the past 50 days. This gives an indication of a security's price trend. For technical analysts, a 200-day moving average is a standard longer term measure, and often this is compared with a 50-day or even 5-day moving average in an effort to gain insight into the direction of a stock. When the short-term average moves above the long-term average, it's considered a buy signal. When the short-term average is below the long-term average, it's considered time to get out.

Moving Average Envelope
A trading band (upper and lower lines) plotted on top of a security's price chart at a specified percentage above and below a selected moving average. Moving averages show the average value of a security's price over a period of time. The value is calculated by totaling all the previous closing prices over a time period and dividing them by the number of closing prices (bars) included in that time period. Depending upon the number of bars you use to calculate this figure, these lines may be very sharp (7 or 12 day moving average), or very smooth (40 day moving average). When using Investor charts to study moving average envelopes, you can select whatever moving average and deviance percentage (determines how wide the envelope is) works best for your investing strategy.

Mutual Fund
An enterprise that pools funds from customers and invests them in a portfolio of securities, theoretically in keeping with the goals and principals stated in its prospectus. Mutual funds are increasingly the vehicle of choice for lay investors seeking a return on their savings. One reason is the staggering array of choices offered by the mutual fund industry. In developed markets there are funds of every conceivable variety and risk level, but they fall into a few broad categories. Stock funds might be considered value or growth; the former are more conservative than the latter. Looked at a different way, stock funds also specialize in small, medium or large size firms, or firms in a particular sector, such as computers or health care or financial services. There are also many kinds of bond funds, as well as funds that invest in a mix of stocks and bonds. Most funds are professionally managed, but some index funds are run more or less by computer, since they seek only to match a market index, such as the Standard & Poor's 500. Finally, there are money-market funds, which many people don't even think of as mutual funds. In choosing a mutual fund, consider the fund's track record, the tenure of its manager, and the level of fees charged. There is no evidence that funds charging a hefty load, or investment fee, outperform those that don't, so it's hard to justify load funds. Most funds are ""open end"" funds, but some are ""closed end,"" meaning they trade like stocks from investor to investor.

Naked Calls
A form of option writing in which the investor sells a call against securities he doesn't own. This is one of the riskiest of market transactions, because the writer's risk is unlimited. If you do own the security, then you've written a ""covered call."" If you sold a naked call and the option owner exercised his right to buy the stock, you would be obligated to acquire the called shares in the open market at whatever price it was trading at. There is no limit to how high this price could go.

Naked Puts
A form of option writing or selling in which the seller owns neither the underlying security nor a different option on that same security with the same (or later) expiration date and higher striking price. Writing naked puts is not recommended unless the seller has already decided that he would be willing to purchase the underlying security at the put strike price.

Negative Volume Index
The Negative Volume Index (NVI) focuses on days when the volume decreases from the previous day. The usefulness of this index is based on the premise that ""smart money"" quietly takes positions on days when volume decreases. When volume increases, the crowd-following, ""uninformed"" investors are in the market. In his book Stock Market Logic, Norman Fosback points out that the odds of a bull market are 95 out of 100 when the NVI rises above its one-year moving average. The odds of a bull market are roughly 50/50 when the NVI is below its one-year average.

Therefore, the NVI is most useful as a bull market indicator.

Net Asset Value (NAV)
The current value of a share in a mutual fund. It's just the fund's assets minus liabilities divided by the number of outstanding shares. Most funds calculate their NAV after the close of trading each day. For conventional mutual funds, your share is worth the day's NAV, but in closed-end mutual funds, the NAV and the market price aren't usually the same. That's because closed-end fund shares trade like stocks, from investor to investor, and sell at a premium or discount to their NAV, depending on a variety of factors (such as transaction costs and investor expectations).

Net Assets
This figure is recorded in millions of dollars and represents the fund's total asset base, net of fees and expenses.

Net Cash from Continuing Operations
The sum of depreciation and amortization, deferred income taxes, operating gains/losses, extraordinary gains/losses, other non-cash items, accounts receivable, inventories, other current assets, short-term debt and other current liabilities.

Net Cash from Discontinued Operations
Cash gains resulting from the sale of discontinued operations (but not an extraordinary gain or loss).

Net Cash from Financing Activities
The sum of issuance of debt, issuance of capital stock, repayment of long-term debt, repurchase of capital stock, payment of cash dividends, and other financing charges, net.

Net Cash from Investing Activities
The sum of the sale of property, plant, and equipment, sale of short-term investments, purchases of property, plant, and equipment, purchase of short-term debt, and other investing changes.

Net Cash from Operating Activities
The sum of net cash from continuing operations and net cash from discontinued operations.

Net Change in Cash and Cash Equivalents
The difference between the cash and cash equivalents at the beginning of the reporting period and at the end of the reporting period.

Net Income (Loss)
Also known as earnings or profit, net income is what it's really all about: making money. Thus, net income is probably the most closely watched item in a company's financial reports. Unfortunately, net income is subject to a good many judgments by both corporate managers and accountants, as well as various charges that exist largely on paper. Net income can also be swollen by earnings from discontinued operations, meaning net will be much lower next year. Because of the many issues surrounding net income, many investors prefer to focus on other measures of profit that remove some of the smoke and confusion generated by taxes, depreciation and other factors. Some like to look at cash flow or earnings before interest and taxes, and some even like to look at sales.

Net Income from Continuing Operations
Includes income taken before the following: preferred dividends; extraordinary gains and losses; income from cumulative effects of accounting change; non-recurring items; income from tax loss carry forward; other gains/losses. (see above)

Net Income from Discontinued Operations
Gains from sales of discontinued operations. However, it does not include extraordinary gains/losses.

Net Income from Total Operations
Taken from total operations (continuing plus discontinued operations), after taxes and minority interest and before extraordinary gains/losses.

Net investment income
A term that means investment income minus investment expenses.

Net Profit Margin
The latest 12 months' net income from total operations divided by the latest 12 months' sales. A measure of profitability, net profit margin varies widely by industry. In the supermarket business, for instance, enormous sales are generated to produce relatively modest profits. Software firms and drug companies often show the opposite pattern.

New Listing
A stock that recently began trading on a given exchange.

No-Load Fund
A mutual fund with no up-front or back-end sales charge. This is not to say that no-load funds do not charge anything; various management and other fees vary widely among funds, and are usually expressed as a percentage of assets. In general, total fees of 1 percent or less annually are considered reasonable. Studies comparing no-load funds to their loaded brethren have found no significant difference in performance.

Nominal Return
The opposite of ""real return,"" nominal return is the return on an investment without taking account of inflation. Thus, the nominal return on a bond might be 8 percent, but if inflation is running at 3 percent, the real return is only 5 percent.

Noncompetitive Bid
A bid submitted at a Treasury auction for a specific amount of securities but at an unspecified price. The buyer agrees to pay the average price of accepted competitive bids.

Noncurrent Assets
Assets not expected to be converted into cash, sold, or exchanged within the normal operating cycle of a company, typically one year.

Noncurrent Liabilities
Liabilities due after one year.

Nonvoting Stock
Stock that carries no power to vote on matters put before the shareholders. Preferred stock usually is nonvoting. Some classes of common stock, while not nonvoting, carries fewer votes than other classes, a system set up in some companies to keep control in the hands of family members or other insiders.

Normalized Income
Net income from total operations minus special charges.

Odd Lot
When an investor buys or sells less than the tradable lot of a scrip (e.g.tradable lot at the KSE for PIA is 500 shares) at the Karachi Stock Exchange, he or she is said to be trading an odd lot. Traditionally, odd lots involve higher proportional transaction costs than round lots. Some investors look to the ratio of odd-lot buying versus odd-lot selling to see what very small investors are doing, and then do the opposite. Odd lot theory, as it is known, is based on the idea that small investors usually are wrong.

Open
The price paid in a security's first transaction of the current trading day.

Open Interest
The number of contracts outstanding for a given option or commodities future. Open interest is a measure in literally how much interest there is in a particular option or future, and is reported in the financial press.

Open-End Fund
A fund that is open to new investors where both new investors and existing shareholders may purchase as many shares as they want. Most mutual funds are open-ended. The fund grows as more money comes in. When investors sell, the number of outstanding shares drops. Occasionally, open-end funds are closed to new investors when they become too large and difficult to manage. However, current shareholders in the fund can continue to invest money. Conversely, a closed-end fund raises money only once, offers a fixed number of shares, and these shares are traded on exchanges much like stocks.

Operating (Gains) Losses
Includes any adjustments that involve the actual operations of the company. These items actually affect the income of the company.

Operating Activities
A company's ongoing operations, not counting cash derived from asset-sales or other extraordinary items.

Operating Income
A firm's earnings from normal operations, minus the everyday costs of doing business. Thus, operating income doesn't take account of proceeds from an asset sale; these nonrecurring items are excluded. On the other hand, costs such as interest expenses and taxes are also ignored. Operating income gives investors an idea of how much money a company makes from its business operations.

Operating Ratio
The ratio of operating costs to sales, or the inverse of the profit margin.

Opportunity Cost
The cost of passing up one investment in favor of another. For example, if you take your money out of a money market fund that is paying 6 percent to invest in a promising stock that yields only 4 percent, the opportunity cost while you're waiting for the stock to go up in value is 2 percent.

Opportunity risk
The chance you take when you tie your money up in a so-so investment like a bank certificate of deposit and lose the chance to put it into something with real growth potential.

Option
Options are contracts giving the holder the right to buy or sell a stock at a given price by a given date. An option giving

you the right to buy at an agreed price is known as a call. The opposite is called a put, and gives you the right to sell. Options always have a specified life, usually three, six or nine months. Options can be a fairly speculative instrument.

Other Current Assets
Includes prepayments, deferred charges, and amounts (other than trade accounts) due from parents and subsidiaries. Also includes any other current assets that are not assigned to cash and cash equivalents, receivables, or inventories.

Other Current Liabilities
Liabilities not assigned to short-term debt or accounts payable.

Other Financing Charges, Net
Includes any financing item that is not assigned to issuance of debt, issuance of capital stock, repayment or long-term debt, repurchase of capital stock, or payment of cash dividends.

Other Gains (Losses)
Includes those gains/losses incurred from an event that is both uncontrollable and often occurs in the place where the company is located.

Other Income (Net)
A residual category containing miscellaneous non-operating revenues and expenses netted.

Other Investing Changes (Net)
Includes any items not assigned to purchases, selling of fixed assets, or investments.

Other Non-Cash Items
The amortization of anything that is not a fixed asset (property, plant, or equipment). It includes all items that are considered non-current assets, long-term debt and liabilities. Includes any other items that are not assigned to depreciation and amortization, deferred income taxes, operating gains/losses, extraordinary gains/losses or working capital.

Other Non-Current Assets
Items not assigned to net fixed assets or intangibles.

Other Non-Current Liabilities
Those liabilities not assigned to long-term debt or deferred income taxes.

Other Taxes
Also known as ""other operating expenses."" For most companies this includes taxes other than income taxes (except excise taxes, which the company does not actually pay, but only collects on behalf of the government). For financial companies, all expenses other than interest expense and income taxes are included in other taxes.

Out-Of-The-Money
An option with no intrinsic value. A call is out-of-the-money when the strike price is higher than the current market value of the underlying security. A put is out-of-the-money when the strike price is lower than the current market value of the underlying security.

Overbought

A condition where it appears a stock has reached a price peak and is now likely to turn down.

Overhead Resistance
A condition in which a price ceiling seems to be in place for a stock. Every time the stock approaches overhead resistance, the price goes down.

Oversold
A condition where it appears a stock has declined to the point where the selling is over and buyers will likely step in and push the stock higher.

P/E (Portfolio)
The weighted average of the price/earnings (P/E) ratios of the stocks in a mutual fund's portfolio. The P/E ratio of a company is its stock price divided by a year's earnings per share, and is a closely watched measure of a firm's performance.

P/E on FY EPS Estimates
The price/earnings (P/E) ratio based on next year's earnings estimates.

P/E Ratio
Also known as the P/E multiple, this is the latest closing price divided by the latest 12 months' earnings per share. P/E is perhaps the single most widely used factor in assessing whether a stock is pricey or cheap. A company's P/E should be looked at against those of similar companies, and against that of the stock market as whole, since different industries and even different companies are characterized by markedly different P/Es. In general, fast-growing technology companies have high P/Es, since the stock price is taking account of anticipated growth as well as current earnings. High-tech companies often trade at P/Es above 40, or about double the overall market P/E. Banks, on the other hand, typically have below-market P/E ratios. A high P/E is often a reflection of lofty expectations for a stock, since no one would invest knowing it would take 40 years just to make one's money back. The idea is that earnings will grow. A high P/E can also reflect poor recent earnings. A low P/E can imply low investor expectations, an undervalued stock, or both. Some investors like to compare P/E to the growth of earnings per share. The resulting PEG ratio (P/E divided by growth rate) gives some idea of whether investor expectations are reasonable given past performance. Value investors sometimes say that a PEG ratio of less than one means a stock is cheap.

P/E Ratio (1 month ago)
The closing price one month ago divided by the latest 12 months' EPS.

P/E Ratio (1 year ago)
The closing price one year ago divided by the latest 12 months' EPS.

P/E Ratio (6 months ago)
The closing price six months ago divided by the latest 12 months' EPS.

Par Value
Par value for bonds is simply the face value. Par value for stocks is an outdated concept, and although some common stock has a par value, nowadays many issues don't even bother.

Passive loss deductions
Passive loss deductions or passive activities deductions are deductions from trades or businesses in which the taxpayer

is only "passively" involved in, such as income from portfolios and tax refunds. The "loss" deductions come into play when the amount of “passive deductions” exceeds "passive activity gross income" for the taxable year.

Pay Date
The date a company will issue a previously announced dividend and mail the checks to shareholders. You must own the stock on the record date in order to get a check on the pay date. If you buy the stock the day after, you won't get a dividend check.

Payment of Cash Dividends
Includes cash payments of common and preferred dividends to the shareholders. Preferred dividends are the amounts required for the current year only and not for any amount in prior years.

Payout Ratio
The latest indicated annual dividend rate divided by the latest 12 months' EPS. Basically, this tells us how much of earnings are paid out in dividends. A company with a high payout ratio can be appealing to conservative investors who want income, but by paying out so much of earnings, the company will have little left to finance growth. A high payout ratio can be cause for concern when coupled with weak or falling earnings, since it could mean a dividend cut is in the offing, or that the company is shortchanging reinvestment to keep up its payout. For most companies, the payout ratio should not exceed two-thirds of earnings. Like most ratios, however, this one varies with industry. Real estate investment trusts pay out almost all their earnings because of a provision in the law that exempts them from taxes if they do so. Utilities also have high payout rates. By contrast, newer, faster growing companies often pay no dividends at all.

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PEG Ratio
The price/earnings (P/E) ratio divided by expected per-share earnings growth over the coming year. A value of less than 1 implies that the stock may well be undervalued; more than 1 implies that it is overvalued. The idea behind the PEG Ratio is to relate price to growth, given that some expectations about growth -- or the lack thereof -- are built into every P/E. PEG is considered particularly helpful in valuing small and mid-cap growth stocks, which typically pay no dividend. For valuing larger stocks, Peter Lynch adds a company's dividend yield to its projected five year earnings growth rate on the theory that larger, more established firms are valued by investors for their current payout as well as the prospect of price appreciation. PEG ratios are considered less useful in assessing cyclical stocks and those in industries such as banking, oil or real estate, where assets are a more important indicator of value.

Percent Bond
The percent of the mutual fund that is composed of bonds, including every fixed-income security with a maturity of more than one year, from government notes to high-yield corporate bonds.

Percent Cash
The percent of the mutual fund that is composed of cash and cash equivalents (fixed-income securities with a maturity of one year or less). Negative percentages of cash indicate that the portfolio is leveraged, meaning it has borrowed against its own assets to buy more securities or that it has used other techniques to gain excess exposure to the market.

Percent Change
The percentage difference between the preceding day's closing price and the current price.

Percent Change in Earnings
The percent difference in Earnings Per Share (EPS) between what analysts were predicting for the company and what the company actually reported. .

Percent Gain
The gain or loss on a security or portfolio, expressed as a percentage of its cost.

Percent Institutional Ownership
The proportion of outstanding shares held by mutual funds, pension funds and other big institutional investors.

Percent Net Assets
The proportion of the fund's net assets that each of its leading holdings makes up.

Percent of Portfolio
The percentage of a total portfolio's value that is accounted for by a given security.

Percent Other
The percent of the mutual fund that is composed of holdings other than stocks, bonds or cash. This can include preferred stocks (equity securities that pay dividends at a specified rate), as well as convertible bonds and convertible preferred, which are corporate securities that are exchangeable for a set amount of another form of security (usually common shares) at a prestated price. Other also denotes all those not-so-neatly categorized securities, such as warrants and options

Percent Price Change
The percent change in the price of the stock versus the price at a given point in the past.

Percent Price Change 1 Week
The percent price change from the previous Friday's closing price to the previous day's closing price.

Percent Price Change Last 6 Months
The percent price change from the closing price on the last day of the month six months ago to the previous day's closing price.

Percent Price Change Last 6 Months
The percent price change from the closing price on the last day of the month six months ago to the previous day's closing price.

Percent Price Change Last Month
The percent price change from the Friday closing price four weeks ago to the previous day's closing price.

Percent Price Change Last Quarter
The percent price change from the closing price on the last day of the month three months ago to the previous day's closing price.

Percent Price Change Last Year
The percent price change from the closing price on the last day of the current month one year ago to the previous day's closing price.

Percent Price Change Year to Date
The percent price change from the closing price on the last day of the previous year to the previous day's closing price.

Percent Stock
The percent of the mutual fund that is composed of common stock.

Personal Active Strategy
An approach to investing in which the individual investor handles his or her own portfolio with the assistance of investment advisors.

Points
A point is a sum equal to 1% of a loan amount. It is charged to the borrower by the lender.

Portfolio
A collection of securities held by an individual.

Portfolio Turnover
A measure of how much buying and selling the fund is doing. This figure is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly assets. A turnover ratio of 100% or more does not necessarily suggest that all securities in the portfolio have been traded. In practical terms, the resulting percentage loosely represents the percentage of the portfolio's holdings that have changed over the past year. Other things being equal, a lower turnover rate is preferable to a higher one. High portfolio turnover can mean high expenses associated with all that trading, as well as higher capital gains distributions. High turnover can also mean a high level of speculation and a short-term orientation on the part of fund management.

Power of attorney
A document authorized by a person, called the principal that grants legal authority to another person, the agent, to act on behalf of the principal. A power of attorney could authorize the agent to purchase and sell shares on behalf of the principal where all trading activity conducted by the agent will be binding on the principal.

Pre-Tax Income
Also known as EBT, for earnings before taxes, this is simply net income with income taxes added back.

Pre-Tax Margin
The latest 12 months' pre-tax income divided by the latest 12 months' sales. A good measure of profitability, although it's important to bear in mind what industry a company is in. Supermarket chains have low pre-tax margins and depend on volume, so there is no point comparing a grocery chain to an upscale specialty retailer, which will have higher

margins.

Preferred Dividends
The total rupee amount of the current dividend requirement on issued preferred stock of the parent company. Preferred dividends are the amounts required for the current year only, and not for any amount required in past years.

Preferred Shares
A special variety of stock that (usually) pays a fixed dividend, and whose holders have a claim on the company's earnings and assets that precedes the claim of those who hold common stock. Preferred shares act a little like bonds, what with their dividend, but aren't necessarily preferred by individual investors, perhaps in part due to the difficulty of pricing them.

Preferred Stock
Preferred stock is stock that acts a lot like a bond but confers an ownership stake in the company. Preferred shares typically pay a fixed dividend and give their holder a claim to earnings and assets prior to that bestowed by common stock. In general, the higher the preferred yield, the greater the risk. Also, preferred yields can be cut, whereas a company can't simply decide not to pay its bondholders (unless it relishes the notion of default). Preferred stock often comes with a conversion clause permitting it to be traded in for common shares; in such instances, look at the conversion premium, or gap between the conversion price and the market price of the common. Too large a gap means limited appreciation for the preferred and little chance of conversion in the near future. Preferred stock tends to be bought by institutions rather than individuals. The latter can conveniently invest in such issues through a mutual fund specializing in convertible securities.

Preferred Stock Equity
Stockholders' equity attributable to the preferred stock of the parent company. Preferred stock equity equals the number of preferred shares issued (less any preferred shares in the treasury) multiplied by the involuntary liquidating value per share (usually par).

Premium
The price paid by a buyer to a seller of an option quoted on a per-share basis. The premium will usually exceed the intrinsic value of the option because of its time value.

Previous Close
The price of the security at the end of the previous day's trading session.

Price
The current market price of a security or the amount paid to buy one unit of a security.

Price Appreciation
Market value less cost. This number tells you how much your investment has appreciated in price.

Price Change
The percent price change over the specified time interval.

Price Channel
A channel (upper and lower lines) that typically shows the trailing 20-day high and 20-day low. The trading strategy based on the price channel is one of the simplest and oldest trend-following models. It requires no calculations. The rules are: Buy when the weekly closing price moves up to a new 20-period high; sell and sell short when the weekly

closing price moves down to a new 20-period low. In other words, when the price moves out of its channel, trade in the direction of this new trend. When using Investor charts to study price channels, you can select whatever time period works best for your investing strategy.

Price/Asset Ratio
The closing price divided by total assets.

Price/Book Value
The latest closing price of the stock divided by the most recent quarter's book value per share. (Book value is simply assets minus liabilities.) Also known as the price/equity ratio. A favorite of strict value investors, the price/book ratio gives some idea of whether you're paying a little or a lot for what would be left of the company if it went out of business immediately. A price/book ratio of less than one causes value hunters to salivate. One reason is that basic accounting principles, geared to err on the side of conservatism, typically understate a company's book value, since assets must be accounted for at cost less depreciation. Thus, a factory could have little or no value on the balance sheet even though, if it were for sale, it might bring millions. Given all this, a very low price to book ratio makes some fundamental investors feel that an ability to generate earnings as well is almost gravy. As with most ratios, this one will vary by industry. The price/book ratio can be especially useful in any field where asset values are fairly certain.

Price/Cash Flow Ratio
The closing price divided by cash flow per share from the last 12 months. An alternative to the P/E ratio, this one removes depreciation and other non-cash charges from the equation, and can be especially useful in businesses with huge depreciation expenses. Price/cash flow is also often used to analyze companies in cyclical industries such as automobiles and steel. Like the P/E ratio, Price/Cash Flow should not be considered in a vacuum, but rather in comparison with similar companies. Another advantage of Price/Cash flow is that it makes it easier to analyze various companies across borders. Depreciation and other issues are treated in different ways under different national accounting rules, making earnings-based ratios problematic. Looking at cash flow can help eliminate such problems and make comparisons more meaningful.

Price/Sales Ratio
The latest closing price of the stock divided by the latest 12 months' sales per share. In recent years, investment theorists have paid increasing attention to sales as an indicator of a company's prospects.

Primary EPS from Continuing Operations
The latest four quarters of earnings from continuing operations divided by the number of shares outstanding.

Primary EPS from Discontinued Operations
The latest four quarters of earnings from discontinued operations divided by the number of shares outstanding. This excludes income from extraordinary gains/losses.

Primary EPS from Total Operations
The sum of the previous four quarters' primary EPS from continuing operations and the primary EPS from discontinued operations divided by the number of shares outstanding.

Prime Rate
Officially, this is the interest rate that banks charge their biggest and best customers for short-term loans. (In reality, some borrowers are charged less or more, depending on various factors.) Because some other rates in the economy are based on the prime, and because it is considered a good indicator of the direction of rates generally, the prime rate (which is set by individual banks) is closely watched.

Probate
The court process in which a deceased person's estate is administered, whether the person died with a will or not. The process includes the appointment of a representative, notice to creditors, inventorying the estate, and distributing the estate according to the deceased person's will or according to the law if there is no will.

Productivity
Technically, the rate of output per unit of input. In the economy at large, productivity generally means labor productivity, or output per hour worked. In a company, productivity can be measured by the ratio of revenue per employee, the return on assets, and at a more specific level, the number of widgets produced per hour at a given plant running with a given level of staffing, equipment, energy and other inputs.

Profit Margin
Subtract cost of goods sold from net sales, and divide the result by net sales. Basically, profit margin tells you the rate of profit generated on actual business operations, leaving aside capital investment, depreciation and other costs that don't directly and immediately relate to the cost of goods. A firm with a razor-thin profit margin generally is less attractive to investors than one with a big profit margin, but like all such measures, this one varies widely by industry. Profit margins for successful software firms and movie studios can be quite high, while profit margins for supermarket chains tend to be low.

Program Trading
Computerized trading undertaken by large institutions to exploit differences in price between expiring stock index futures and the underlying stock when both ought to be equal. The resulting arbitrage play produces essentially riskless profit. Program trading has been criticized for creating market turmoil, in effect producing risk-free profits for practitioners while increasing volatility for everyone else. But advocates of program trading say it makes a more efficient market by eliminating price differences between two items that are essentially the same.

Property, Plant, and Equipment, Gross
The original purchase price of the fixed assets of a company.

Property, Plant, and Equipment, Net
Assets of a company that are of a relatively permanent nature and are not intended for resale. The figure is stated as cost minus accumulated depreciation and amortization.

Prospectus
A document issued by a company that is about to sell stock to the public. Prepared with the help of lawyers and other high-priced advisers, the prospectus is must-reading for investors. It discloses a wealth of information about the business of a private company, much of it not previously made public. This includes financial data, background on the top executives, information on pending litigation, details of the offering itself (what proportion of ownership is being sold, what will happen to the proceeds), and risk factors to consider before investing (competition in the industry, barriers to entry, etc.).

Proxy
Authority to act for another, or the person with the power to do so. In the investment world, a proxy may be solicited from shareholders so that management can vote their shares. The word ""proxy"" is also investment shorthand for the proxy statement, a revealing document sent to shareholders annually that discloses what issues may be up for shareholder approval and how much top managers are paid.

Public Short Ratio
A technical indicator that shows the relationship between the number of public short sales and the total number of short

sales. The usefulness of the public short ratio (PSR) is based on the premise that of all short sellers, the public picks the worst possible time to sell short. If this is true, then we should buy when the public is shorting (historically high PSR) and sell when the public is buying (historically low PSR).

Purchase Constraints
Describes any limits on the purchase of shares in the fund.

Purchase of Property, Plant, Equipment
Capital outlays undertaken to increase, construct, or improve capital assets.

Purchase of Short-Term Investments
Includes any items not assigned to purchases, selling of fixed assets, or investments.

Put/Call Ratio
Volume of put options divided by the volume in call options. A high ratio (put volume much higher than call volume) is considered by technical analysts a sign of bearish sentiment indicating the market is headed south.

Quant
Also known as a rocket scientist, a quant is someone who is really good at math, computer science and the like and brings those skills to bear in the securities industry. The rise of computers and exotic derivatives on Stock Exchanges is both a cause and an effect of quants. Such tools (along with the big bucks to be made) bring quants to the industry, who in turn create more such tools themselves.

Quantity
The number of shares purchased or tracked for a given security.

Quick Ratio
The sum of cash and receivables from the most recent quarter divided by the total current liabilities from the most recent quarter. This assessment of a company's ability to meet short-term obligations is also known as the acid test. In general, the quick ratio should be 1 or better. A high quick ratio is usually a sign of a solid, conservatively run company in no danger of imminent demise even if for some awful reason sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm's business or the economy at large.

Quick Ratio/Acid-Test Ratio
The sum of cash and receivables from the most recent quarter divided by the total current liabilities from the most recent quarter. This assessment of a company's ability to meet short-term obligations is also known as the acid test. In general, the quick ratio should be 1 or better. A high quick ratio is usually a sign of a solid, conservatively run company in no danger of imminent demise even if for some awful reason sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm's business or the economy at large.

Random-Walk Theory
A theory that says technical analysis is worthless because the market is simply responding to information as it becomes available, and that whatever has come before is meaningless for predicting what's ahead.

Real Return
The return on an investment after taking inflation into account. To calculate the real return, simply subtract the inflation rate from the stated return. For instance, a 12 percent annual return in a year of 5 percent inflation results in a 7 percent

real return.

Receivable Turnover
The receivable ratio is total credit sales divided by accounts receivable. Receivable turnover ratio indicates how many times the receivables portfolio has been collected during the accounting period.

Receivables
What the company is owed, less any provision for bad debts. Rising receivables could indicate increasing sales, which of course is good. But rising receivables might also be a sign that debtors are paying more slowly or the company is being forced to extend more credit to sell its products, which is bad.

Record Date
The date by which you must own a stock in order to get a dividend check on the pay date. When a company plans to issue a dividend to shareholders, it announces both a pay date for the dividend and a record date. The record date usually precedes the pay date by about two weeks. If you buy the stock the day after the record date, you won't get a dividend check.

Red Herring
A preliminary prospectus issued by stock-underwriting firms to measure investor interest in a prospective stock offering. The document must contain a warning, printed in red, that the document does not contain all the information normally required by the Securities and Exchange Commission, and that some parts may be changed before the final prospectus is issued to the public.

Redemption Fee
An amount charged when money is withdrawn from a mutual fund. Unlike a back-end load, which profits the fund company, redemption fees go back into the fund itself and thus do not represent a net cost to shareholders. Redemption fees typically are charged only on withdrawals made before some relatively brief period, commonly 30, 180 or 365 days. These fees are typically imposed to discourage market timers, whose quick movements into and out of funds can be costly and disruptive.

Relative Strength
Measures the price performance of a stock in comparison to all other stocks. Many analysts believe that stocks with strong and improving relative strength tend to continue to outperform all other stocks, all other things being equal. The figure is obtained by calculating the percent price change of a stock over a particular time period and ranking it against all other stocks on a scale of 1 to 100, with 100 being best. Stocks that are ranked from 70 to 100 are considered to have good relative strength, while stocks ranked less than 50 are considered to have poor relative strength.

Repayment of Debt
Includes the payments of long-term obligations (those of more than one year's duration).

Repurchase of Capital Stock
Includes anything that involves the repurchase of common and preferred stock for the corporate treasury.

Research and Development Costs (R&D Costs)
Spending on the development of new products (or even new knowledge), or on improving products already being made. R&D costs vary widely by industry; semiconductor firms, biotechnology companies and other businesses whose products are rapidly evolving tend to have high R&D expenses. Some other industries, such as retailing, traditionally spend little on R&D. And some industries, such as newspaper publishers, probably need to spend more. By and large, companies that engage in substantial R&D are more likely to hit profit home runs than companies who skimp in this

area. Intel, the enormously profitable firm that makes the brains of most personal computers, spends huge sums on R&D.

Resistance Level
A ceiling of sorts believed by technical analysts to hang over a stock -- or the entire stock market -- at some given level, perhaps as the result of purchases made before a decline. The thinking is that investors, waiting for a rebound, will get out when things have recovered enough to wipe out their losses. Thus, the stock or market is prevented from moving higher. The trading range between the support level and resistance level is known as a ""channel.""

Return
Return on investment is calculated by taking the value of the investment held at the beginning of the ROI period compared to the current value. In other words:

((Current Value) - (Beginning Value) + (Income)) / (Beginning Value), where

(Current Value) = (the current total shares) * (the last price),

(Beginning Value) = (number of shares held prior to the period - any shares sold) * (the closing price prior to the period) + the "Cost Basis" of any shares added in this period (Buys, Reinvest, Add Shares, etc), and (Income) = any income events such as Dividends/Interest (not Reinvested) and Realized gain/loss from Sells in this period.

For example, assume that on 1/1/99 you owned 1000 shares of MSFT (which had been purchased prior to this date), the last price (on 12/31/98) was $69 11/32, and you still own the 1000 shares and the current price is $90 1/8. The ROI (YTD) for MSFT would be calculated:

((1000 * 90.125) - (1000 * 69.34375)) / (1000 * 69.34375) = 20781.25/69343.75 = 29.968%

If you had purchased 200 additional shares at $75 each during this period, the formula would be modified as follows:

((1200 * 90.125) - (1000 * 69.34375 + 200 * 75)) / (1000 * 69.34375 + >200 * 75) = 23806.25/84343.75 = 28.225%

Return On Assets (ROA)
This ratio is a measure of a firm's effectiveness in using the assets at hand in generating earnings. Return on assets should be of special interest to investors in bank stocks.

Return On Equity (ROE)
Return on equity is probably the most widely used measure of how well a company is performing for its shareholders. It's a relatively straightforward benchmark that is easy to calculate, works for the great majority of industries, and allows investors to compare the company's use of its equity with other investments. Return on equity for most companies certainly should be in the double digits, and value investors often look for 15 percent or higher. A return of more than 20 percent is considered excellent.

Return on Invested Capital
Also known as return on investment, this ratio is a measure of how effectively management is using the scarce capital at its disposal.

Return on Sales
Net income as a percentage of sales. Return on sales varies widely by industry. Like the price/cash flow ratio, return on sales can be useful in assessing cyclical companies that sometimes have no earnings during down periods, and firms whose business requires a huge capital investment, and thus lots of depreciation.

Revenue

All the money (or other items of value) that came into the company during the given period. Revenue includes everything: sales, interest income, proceeds from the sale of a subsidiary and so forth. Revenue is thus one of the most reliable items on the income statement, as opposed to net income, which is subject to various accounting and managerial judgments. But the all-inclusive nature of revenue can make it misleading. If 50 percent of revenue in a given year came from the one-time sale of some land, clearly one shouldn't assume that the business will have similar revenue in future years.

Revenue Growth
The compound annual growth rate of a company's revenues.

Revenue Growth Quarter vs. Quarter
The rate at which revenue grew from the year-ago quarter to the most recent one.

Revenue Growth Year vs. Year
The rate at which revenue grew from the previous 12 month period to the most recent one.

Revenue Growth YTD vs. YTD
The rate at which revenue grew from the year-to-date period of the previous year to the same period in the current year.

Revenue/Employee
Revenue divided by total employment at a firm. This is a measure of how labor-intensive a business might be.

Revenue/Share
Revenue divided by shares outstanding. This figure expresses revenue in terms that most investors find more meaningful, and gives a sense of what multiple of revenue investors are willing to pay for the stock.

Risk
Generically, risk is the chance that something bad will happen, and this is a perfectly apt definition in the world of investing as well. But because this leaves little room for measurement, risk in the context of investing simply refers to the variability of investment returns. The great trade-off in investing, of course, is between risk and return. Risky investments usually must offer at least some hope of a higher return than extremely safe investments. To invest successfully, it's important to understand the nature of the risks you face as well as your attitude toward them. Imagine you are a bond holder. The primary risks you face are credit risk (the chance that you won't get your money back); market risk (the chance that interest rates will soar, reducing the value of your dividends as well as of your bond); and inflation risk (the chance that rising price levels will erode the buying power of the dividends you receive). These same risks, in different forms, beset stockholders. They face company-specific risk (bad products, bad management, or bad luck, for instance); market risk (the stock market crashes and your otherwise excellent company is dragged down along with everything else); and inflation risk (which plays havoc with everything). That last one is particularly insidious. A classic mistake made by many investors is stashing all their money in safe, quiet certificates of deposit, only to discover 20 years later that their buying power has been halved. Now, as to attitude, the question is, how much risk can you take? That depends on a variety of factors. How old are you? What is your earnings potential? What is your investment horizon? Do you prefer bungee jumping, downhill skiing, walking your dog or canasta? Remember, you can moderate risk through diversification and time. Measuring the risk of anything is difficult, but as a first step, considers the return available on a risk-free investment, such as Treasury securities or a government insured certificate of deposit. Any return on an investment in excess of this is a reward for risk, or a risk premium. Standard measures of investment risk include alpha and beta.

Revenue Growth Year vs. Year
The rate at which revenue grew from the previous 12 month period to the most recent one.

Revenue Growth YTD vs. YTD
The rate at which revenue grew from the year-to-date period of the previous year to the same period in the current year.

Revenue/Employee
Revenue divided by total employment at a firm. This is a measure of how labor-intensive a business might be.

Revenue/Share
Revenue divided by shares outstanding. This figure expresses revenue in terms that most investors find more meaningful, and gives a sense of what multiple of revenue investors are willing to pay for the stock.

Risk
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Risk Rank
A Value Line measure of a mutual fund's volatility. Risk Ranks are calculated for each of two broad categories; equity and partial equity funds, and taxable and tax-exempt fixed-income funds. The ranks are based on standard deviation, a measure of a fund's volatility. Value Line uses a three-year period for this calculation, which provides enough data for reliable measurement without overweighting data that is too old to be reliable. Standard deviation accounts for both positive and negative returns equally and thus gives an indication of the potential swings in a fund's performance. Because it makes no distinction between upside and downside volatility, standard deviation will tend to give a more conservative indication of the risk a fund has historically incurred. A Risk Rank of ""1"" indicates the least volatile, or least risky, funds. Conversely, a Risk Rank of ""5"" indicates the most volatile, or the most risky, funds.

Risk Tolerance
Risk tolerance basically is the amount of psychological pain you're willing to suffer from your investments. For example, if your risk propensity is high, you might feel fairly comfortable investing in futures contracts or other types of securities that can go up and down like a roller coaster. But if your tolerance for risk is low, you should stick to more conservative investments that aren't subject to wild swings in value. No investment is worth losing sleep over.

Round Trip
Buying and selling the same stock, especially in a relatively brief period.

Rule Of 72
A quick way to determine how long it takes for some types of investments to double. To use the rule of 72, simply divide 72 by the yield of the proposed investment. If the investment yields 12 percent annually, it would take only six years to double your money. At 10 percent, it would take about seven years.

Sale of Property, Plant, Equipment
Includes proceeds from selling any fixed assets such as property, plant, and equipment. Usually this section also includes any retirement of equipment.

Sale of Short-Term Investments
Includes profit received from selling short-term marketable securities.

Sales
This represents all net sales of the corporation plus any other revenues associated with the main operations of the business (or those labeled as operating revenues). It does not include dividends, interest income, or non-operating income. Sales are an important item in assessing the prospects of any public company. Although subject to some finagling, sales typically are not as iffy as net income, and tell you just how much of its goods and services the company is selling. Thus, the rate of sales increase is an important indicator of how fast a company is growing. Sales can be analyzed in different ways for different industries. In retailing, for instance, analysts like to look at the sales-per-square-foot ratio as well as ""same-store sales."" Investors are sometimes wary of firms that increase profits without increasing sales, as was the case with IBM for awhile during its turnaround, because cost-cutting cannot go on forever. In recent years, analysts have paid increasing attention to sales, particularly by calculating the Price/Sales ratio.

Sales/Share
The latest twelve months' sales divided by the latest shares outstanding. Net income is subject to various circumstances and accounting decisions, but sales are (generally) sales. Investment theorists have in recent years paid more attention to sales as an indicator of a company's prospects.

Sector
A sector is a part of the economy. Stocks in the same sector tend to be in the same industry, or one very closely related. Mutual funds focused on specific sectors, such as semiconductors, airlines, utilities, retailing, etc., make it relatively easy to invest in any given sector. Sector investing can pay big returns -- semiconductor stocks, for example, have roared ahead of the overall market during the past decade -- but they involve big risks as well. The main problem is a lack of diversification; investing in any one sector means investing in a group of stocks that tend to rise and fall in unison.

Security
In investing, a security is a transferable ownership interest (such as common stock) or IOU (such as a bond). In recent years, more and more things have become ""securitized,"" such as mortgage obligations, student loans and credit-card debt. By making such financial obligations more liquid, securitization has contributed to efficient markets and the democratization of investment opportunity. But by distributing ownership as well as risk, it has probably also increased the power of management with respect to shareholders.

Selling Short
Selling short means to sell shares you've borrowed in hopes the price will fall. Here's how it works: you borrow the

shares from your broker and sell them. Now you're paying interest on the borrowed shares, but you're also earning interest on the proceeds from the sale. Sooner or later, you have to replace what you've borrowed, but the hope is that the stock price will fall. Then you can buy back the shares for less than you sold them for, replacing what you borrowed and pocketing the difference. But shorting is risky; stocks tend to rise over time, and if you short a stock that goes up, your losses theoretically are unlimited. Shorting has been especially ineffective in recent years, during the remarkable bull market, and some professional shorts literally have been driven from the field.

Selling, General and Administrative Expenses
Includes all salaries, indirect production, marketing, and general corporation expenses. Examining this figure as a percent of sales or net income compared to other companies in the same business can give some idea of whether management runs a tight ship. In recent years many companies have conducted a war on corporate overhead, cutting layers of management and reducing central administration. On the other hand, chief executive salaries have continued to soar. Note also the importance of assessing this data in the context of a company's industry. In some businesses, such as those that depend on a great deal of TV advertising, marketing expenses can be enormous.

Shareholder's Equity
This is the net worth of a company, the amount by which assets exceed liabilities. It's also known as ""book value."" But most companies are worth far more than their book value, since ""worth"" means what someone is willing to pay, and hardly any good companies can be acquired for this baseline price.

Shares Outstanding
The total number of a company's publicly traded shares.

Short Against the Box
A technique that permits an investor who wants to unload an appreciated stock to take the profits in the next year (presumably for tax reasons). Such an investor would sell short the very same security in the very same quantity. He would cover the short position with his own shares in the new year, when the profit would be recorded.

Short Covering
The process of buying back stock that has already been sold short.

Short Interest Ratio
Shares sold short divided by average daily volume. This ""days to cover"" ratio represents the number of days of average trading needed to cover short positions in a given stock. This ratio is especially worth investigating if you are considering a short sale. When too many shares of a given stock have been sold short and days to cover stretches past 8 or 10 days, covering your position could prove difficult.

Short Interest Shares
The number of shares of the stock that have been sold short, but not yet repurchased. This figure is not as telling as it once was, since much short selling today is the result of hedging rather than an expression of investor sentiment that a given stock will fall.

Short-Term Debt
Debt that must be paid in the near future (usually one year). Because this debt is due soon, a company should have plenty of current assets to cover it.

Sinking Fund
A special reserve account created by a bond issuer. The issuer promises to put money into the account at regular intervals and to use the cash that accumulates to redeem the bonds. A sinking fund gives bondholders an extra layer of

protection against default.

Size of Last Sale
The most recent quantity of shares traded.

Special Income/Charges
Those income charges that are either infrequent or unusual, but not both.

Spinoff
When a company decides that a subsidiary needs to stand on its own, it might do a spinoff, distributing shares of the new entity to existing shareholders, or selling the new business to its managers or even its employees. There are many possible reasons for a spinoff. Management may decide, for instance, that this is a way to maximize shareholder value. Or it may be decide that the subsidiary is not earning the kind returns that other units of the company generate.

Split
A stock split occurs when a company decides to divide its share in two, three, four or more. Thus a stock worth Rs.100 might be the subject of a 2-for-1 split, resulting in a share price of Rs.50. Holders in this case get twice as many shares but each is worth half as much, and since nothing else about the company has changed, shareholders aren't better or worse off. Stock splits traditionally are seen as a good sign; companies split their shares when the price of each share is considered high enough to discourage ownership. But there is little evidence that splits do shareholder much good. Reverse stock splits (in which you get fewer shares, but each is worth proportionately more) do occur, but rarely.

Spread Trading
The practice of buying one option contract and selling another for the same underlying investment at the same time. The difference between the profit from one transaction and the loss on the other is the spread. The spread can either work for or against the trader. If the spread works in his favor, he makes a profit. If it works against him, he suffers a loss. Spread trading is used by futures and options traders to reduce the risk of losing large sums from a sudden movement in the market.

Standard Deviation
A measure of a mutual fund's volatility, standard deviation is a statistical measure of the range of a fund's performance. The higher the number the greater the volatility. When a fund has a high standard deviation, its range of performance has been very wide, indicating that there is a greater potential for volatility. The standard deviation figure provided here is an annualized statistic based on 36 monthly returns. By definition, approximately 68% of the time the total returns of any given fund are expected to differ from its mean total return by no more than plus or minus the standard deviation figure. Ninety-five percent of the time, a fund's total returns should be within a range of plus or minus two times the standard deviation from its mean. These ranges assume that a fund's returns fall in a typical bell-shaped distribution. In any case, the greater the standard deviation, the greater the fund's volatility. For example, an investor can compare two funds with the same average monthly return of 5.0%, but with different standard deviations. The first fund has a standard deviation of 2.0, which means its range of returns for the past 36 months has typically remained between 1% and 9%. On the other hand, assume that the second fund has a standard deviation of 4.0 for the same period. This higher deviation indicates this fund has experienced returns fluctuating between -3% and 13%. With the second fund, an investor might expect greater volatility.

Statement of Cash Flow
An analysis of cash flow that presents a company's sources and uses of funds. The statement focuses on cash and involves some nonintuitive leaps (an increase in accounts receivable is a use of cash, not a source), but to the educated eye it can provide a telling picture of where a company is headed with respect to liquidity. Sources of cash include net income, depreciation and reductions in inventory. Uses of cash include dividends declared as well as increases in

current assets. A statement of cash flow reveals healthy or unhealthy trends and allows for at least the possibility of predicting future cash requirements.

Stock Certificate
A document that proves your ownership of shares in a particular company.

Stop loss order
An instruction to your broker to close out your short position -- buy stock to replace the shares you borrowed -- if your losses reach a certain percentage of your investment.

Straddle
The purchase or sale of an equal number of puts and calls on an underlying stock, with the same strike price and expiration date. The investor who purchases or sells a straddle seeks to profit from moderate changes in the price of the underlying stock, regardless of whether the prices goes up or down.

Strangle
The purchase or sale of an equal number of puts and calls on an underlying stock, with the same expiration date but different strike prices. The investor who purchases or sells a strangle seeks to profit from large changes in the price of the underlying stock, regardless of whether the price goes up or down.

Strike Price
The price at which the underlying stock can be purchased (for call options) or sold (for put options) during a specified period. For example, you might sell a covered call against your XYZ Corp. shares with a strike price of Rs.50. This means that the buyer gets to buy your shares at Rs.50 each, even if the market price rises to Rs.75.

Support Level
A level below which (the thinking goes) a stock will not fall. It's the price at which investors seem to come forward to buy, perhaps because it's as low as the stock seems to go, or because the apparent bargain becomes irresistible. The trading range between the support level and resistance level is known as a ""channel.""

Symbol
A unique, market-approved code that identifies a particular security on an exchange. The symbol generally reflects the name of the security. For example, the symbol for Pakistan International Airlines stock is PIAA. Also known as the ""ticker symbol.""

Target Price
The price that one hopes a given security will reach.

Tax Rate
The percentage of net income the company pays in income taxes.

Technical Analysis
The practice of trying to define stock prices by examining trading patterns and comparing the shape of current charts to those from the past. Technical analysts use a variety of complex charting techniques, but some of the most basic involve plotting price movements in a stock over time on a fever chart. The shape of the chart is supposed to reveal something about whether the stock is headed up or down. A head and shoulders pattern, for instance, could imply a stock has topped out. Technicians look for stocks that have broken through their resistance level (on the upside). A stock that has broken through its support level (on the downside) is considered poised for further losses. Critics deride technical

analysis as only so much hocus-pocus, not far removed from tea-leaf reading. Advocates insist that the stock market clearly moves in broad patterns, and that these can be recognized by careful charting and a knowledge of history. Whether or not technical analysis has any validity, it has a good many adherents, and on that basis alone influences stock prices.

Technical Analyst
Technical analysts try to forecast price movements by examining and charting the patterns formed by price history, trading volume, the ratio of advancing stocks to declining stocks, and other technical data. Because technical analysts rely heavily on charts and graphs, they are often called chartists. Most brokerage firms employ at least one technical analyst.

Tender Offer
An offer from a company to shareholders to buy their shares of stock. Companies sometimes make tender offers to buy back their own stock to reduce the number of outstanding shares. But often, a tender offer is a key element in one company's attempt to take over another. To entice you to sell, the company making the tender offer may be willing to pay an above-market price for your shares.

Ticker
A unique, market-approved code that identifies a particular security on an exchange. The ticker symbol generally reflects the name of the security. For example, the symbol for Pakistan International Airlines stock is PIAA.

Time Value
The portion of an option premium that is attributed to the amount of time remaining until the option contract expires. Time value is whatever value the option has in addition to its intrinsic value.

Title insurance
Insurance policies that protect lenders in cases where the title of a property is challenged for reasons such as fraud.

Total Annualized Return
An investment return projected over a one-year period, compounded daily. For example, if an investment returned 1% over one month, it would have an annualized return of approximately 12%. Total annualized return can be useful in assessing the performance of an investment held for a brief period.

Total Assets
Current assets plus non-current assets.

Total Current Assets
The sum of cash and equivalents, receivables, inventories, and other current assets. Total current assets are all the assets convertible into cash within a relatively short period of time, usually a year. This number ought to be substantially greater than total current liabilities.

Total Current Liabilities
The sum of accounts payable, short-term debt, and other current liabilities. This number ought to be smaller than total current assets.

Total Equity
The sum of preferred stock equity and common stock equity.

Total Income Available for Interest Expense
Earnings before interest and taxes (EBIT) adjusted for other income, net.

Total Liabilities
The sum of total current liabilities and total non-current liabilities.

Total Liabilities and Stock Equity
The sum of the total liabilities and the shareholders' equity.

Total Net Income
The sum of income from continuing and discontinued operations plus all other adjustments for extraordinary items, other gains/losses, accounting changes, tax loss carryforward, and special items.

Total Non-Current Assets
The sum of intangibles and other non-current assets.

Total Non-Current Liabilities
The sum of long-term debt, deferred income taxes, other non-current liabilities, and minority interest.

Total Return
Gain or loss over a specified time period, including capital gains as well as dividends. For mutual funds, total return assumes reinvestment of all income and capital-gains distributions during the period. Total return is calculated by figuring the change in net asset value over time and then dividing by the NAV at the start of the period. Total return does not take account of sales charges or for redemption fees but the figure does take account of management, administrative, and other costs automatically deducted from fund assets.

Total Stocks
The number of stocks held by a given mutual fund. An indication of the portfolio's diversification.

Transaction
A transaction may be a purchase, sale, or exchange of one or more securities.

Treasury Bill
A Treasury security of one year or less in duration. T-bills are sold in minimum denominations of Rs. 100,000

Treasury Bond
Technically, a Treasury security of 30 years duration, but T-bonds of shorter duration are available in the secondary market.

Treasury Budget
A government report that presents the monthly Federal Budget Deficit data. The Treasury budget data follow strong seasonal patterns, which produce huge month-to-month fluctuations in the deficit. These fluctuations tell us little about long term budget trends. To the extent that the market analyzes the monthly Treasury data, the focus is on year/year changes in receipts and outlays, since the data are not seasonally adjusted. Only in April, the most important month for tax inflows to the Treasury, does the market pay any attention to this report. The data can be predicted with reasonable accuracy by using daily data in the Daily Treasury Statement.

Treasury Note
A Treasury security of two to 10 years in duration. The minimum denomination varies based on duration.

Treasury Shares
Stock that was once outstanding but has since been repurchased by the company. Treasury stock is generally carried at cost and doesn't count when it comes to figuring dividends or earnings per share.

Trust
A legally recognized arrangement where one or more persons (trustees) take title to property to hold it for the benefit of another person (beneficiary). One person may be trustee and beneficiary, which is usually the case during the life of someone who has established a revocable living trust.

Trust deed
A trust deed is a legal document that specifies among other things the collateral for a loan, and it gives a lender the right to seize and sell the collateral if the borrower fails to repay. For a home loan, the collateral is the home itself.

Turnover Ratio
A measure of a fund's trading activity, computed by dividing the lesser of purchases or sales (excluding all securities with maturities of less than one year) by average monthly assets. A turnover ratio of 100% or more does not necessarily suggest that all securities in the portfolio have been traded. In practical terms, the resulting percentage loosely represents the percentage of the portfolio's holdings that have changed over the past year.

Underlying Investment
The security or commodity to be purchased or sold when an option contract is exercised.

Underwriter
A firm that brings out new securities issues, agreeing to purchase and resell them. Often a lead underwriter and several other underwriters will work together on a given issue.

Unearned income
Income that includes dividends, interest, royalties, rental fees, capital gains, and any other income that does not come from the sweat of your brow.

Updated
The date and time a quote was provided.

Utilities Bond
A bond category that includes bonds relating to electricity, gas, nuclear power, dams, and telephone companies.

Utilities Sector
A category that includes electricity, gas, nuclear power, dams and telephone companies.

Value Stock
A value stock is one that is undervalued by the stock market. Value stocks can be identified on the most basic level simply by examining the financial statements and looking at some key ratios. Is the P/E ratio well below that of the market and of other companies in the same industry? Is the price anywhere close to book value? Has a loss been reported in the past five or 10 years? Is the current ratio 2 to 1 or better? Is the quick ratio well in excess of 1? Is the

interest coverage ratio 5 to 1 or better? Is there twice as much equity as debt? Every savvy value investor has his or her own favorite ratios, but the goal in identifying value stocks is to find ones whose financials are almost irresistible. The company should also be in a desirable industry that is not continually roiled by technological change, and it should not be heavily regulated. Look for a high dividend, too, but with plenty of coverage -- a company paying out more than two-thirds of earnings might not be able to keep it up.

Variable Ratio Investing
A contrary investing strategy that aims to take advantage of the overall direction of the stock or bond market by increasing stock holdings when the market is weak and increasing bond or cash holdings when the market is strong. Basically, you change your portfolio with the market. When the stock market goes up, you lower your equity exposure by selling a part of your shares and moving your funds into cash. For example, if your overall asset allocation is 60 percent cash and 40 percent equities and the market drops by 10 percent, you would increase your percentage equity exposure."" Some advocates of variable-ratio investing say it helps you follow the golden rule of ""buying low and selling high."" That's because every time the market takes a big drop, you buy more stock at a discounted price and will be well positioned when the market moves higher again. However, if you're locked into a formula that calls for increasing your stock position as the market gets weaker, the value of your overall portfolio will also probably decline. And if the market is heading higher, a policy of increasingly shifting out of stocks will mean that your returns will suffer if the bull market lasts for months or even years.

Venture Capital
Capital made available to fledgling operations by venture capitalists, who take a large stake in exchange for risking their money.

Vested Value
The amount of retirement benefits or stock options to which an employee is entitled, usually based on length of service

Volatility
The tendency of a security to rise or fall sharply within a short period. Volatility is a traditional worry for investors, and is associated with fast-growing stocks, high P/Es, smaller companies, technology-based firms, and thinly traded issues. The most widely used measure of stock volatility is the beta coefficient. Companies that tend to be less volatile include those with a solid record of healthy dividend payments, large companies in stable businesses such as food and other consumer products, and companies in slow-growth industries. You can reduce the volatility of your portfolio through clever diversification. Some commentators consider volatility overrated as a concern for younger investors, who have the time to hold on through thick and thin. If you're investing for the long-term, after all, what are some bumps in the road as long as you get where you're going?

Volume
The total units of a security traded on the most recent trading day. Different people see different things in trading volume, but most people agree it means something. On the most basic level, unusually large volume means that important news has just come out, or will come out soon. Volume is also important in technical analysis. Rising volume coupled with a rising share price is considered a bullish indicator for a stock, while the opposite is considered a bearish indicator. Technical analysts also track a ""volume price trend"" to relate volume and price. On a day when a given stock closes higher, they record volume as a positive value, and on a day with a lower close they record volume as a negative value. Such a graph can shows whether a stock has more upward or downward strength. Some technical analysts believe that the biggest price gains are overwhelmingly associated with the heaviest volume trading.

Warrant
A security that allows the owner to buy a predetermined number of shares of a stock -- generally at a higher price -- at some point in the future. For example, you might buy a warrant that gives you the right to purchase 10 shares of XYZ stock at Rs.50 per share at any time before Jan 1, 2004. Warrants are generally offered in tandem with a fixed-income

security to provide additional incentive to the buyer.

Whipsaw
An investment where the price goes the opposite direction from that which was anticipated right after the transaction is made. For example, an investment is made based on a buy signal generated by a technical indicator such as the 200-day moving average and then shortly thereafter, the price moves in the opposite direction giving a sell signal, frequently with a loss. Whipsaws can substantially increase your commissions for stocks and the fund manager may prohibit excessive mutual fund switching.

Will
A legal document in which you state where you want your legal assets to go after your death.

Working Capital
Current assets minus current liabilities. A firm's working capital is the money it has available to meet current obligations (those due in less than a year). A firm with a great deal of working capital is in little danger of failing in the near future, but enormous working capital over a prolonged period could also imply excessively conservative management. Working capital, after all, is short-term in nature and hasn't been put to work in the company's profit-making business operations. As with most measures of corporate well-being, this one varies by industry and even by season.

Wrap Account
An investment account in which the investor receives brokerage and other investment services for a single, predetermined price -- usually a percentage of assets ranging from 1 percent to 3 percent. Wrap accounts have gained popularity in recent years, in part because many investors got tired of putting their money into funds that ""nickel-and-dimed"" them with smaller fees.

A wrap fee can also remove the temptation for a broker to repeatedly buy and sell (churn) for the sole purpose of generating commissions.

Write-down
Firms are said to write down an asset when they recognize, for accounting purposes, that it has less value than previously thought. Inventory write-downs are classic examples; for awhile, purveyors of bell-bottoms probably felt the need to take significant write-downs, although they might have had the chance to book significant profits if they held on long enough. Note that a write-off is an extreme example of a write-down; a write-off reduces the asset's value to zero. Both write-downs and write-offs reduce net income when taken.

Year Ago EPS
The actual earnings per share for the given year-ago period.

Yen
The national currency of Japan.

Yield
The yield on a given investment based on its current price. A stock that pays a Rs. 1 in dividends per quarter, or Rs.4 per year, and that trades at Rs.100, has a current yield of 4 percent. If the stock goes to Rs.133 and the dividend remains unchanged, the current yield would be 3 percent.

Yield Curve

A graph of the bond yields available at a given moment in time, with the dividend yield rising along the vertical line and bond durations moving outward along the horizontal line. A typical yield curve is rising, or positive, because bonds of a longer duration pay more interest. The sharper the slope of this curve, the less additional duration you need for a higher yield. An inverted or negative yield curve, which goes downward because short-term rates are higher than long-term rates, is considered a sign that a recession is in the offing; high short-term rates will work their way through the economy, putting the brakes on growth. If short and long-term rates are the same, the yield curve is flat. The bonds typically plotted on a yield curve are Treasury securities.

Yield To Maturity
The rate of return yielded by a debt security that is held to maturity when both interest payments and the investor's capital gain or loss on the security are taken into account.

YTD
Year to date.

Zero-Coupon Bond
A bond that, instead of paying interest, is sold at a deep discount. You get the face value at maturity, and the difference between the two is the yield. Mostly these are Treasury securities. Zeros, as they are known, have some advantages: you can buy one today that matures when your child is ready for college and know exactly how much money you will have. Zeros pay slightly higher interest than regular bonds, too.