

## **Glossary of commonly used Stock Market terminologies**

### **Arbitrage**

The business of taking advantage of difference in price of a security traded on two or more stock exchanges, by buying in one and selling in the other (or vice versa). Quite simply it means you try to buy something cheap in one place, to make a profit selling it somewhere else. Given the speed at which the financial markets now operate, in practice the simultaneous purchase of foreign exchange, securities, commodities or any other financial instrument in one market and the sale in another at a higher price.

### **Averaging**

The process of gradually buying more and more securities in a declining market (or selling in a rising market) in order to level out the purchase (or sale) price

### **Bears**

These stockmarket animals are pessimists, they expect share prices or any other type of investment to fall. In a 'bear market' the general sentiment is that prices are going to go lower and majority of dealers will sell as quickly as possible for fear of holding shares which diminish in value. Bears, like 'bulls' drive the market.

### **Bear Market**

A prolonged period of falling securities prices in a stock market.

### **Badla**

Carrying forward of transaction form one settlement period to the next without effecting delivery or payment. Badla involves carrying forward of a transaction from one settlement period to the next. The carry-forward is done at the making up price, which is usually the closing price of the last day of settlement.

A badla transaction attracts the following payments / charges :

- (a) 'margin money' specified by the stock exchange board; and
- (b) contango or badla charges (interest charges) determined on the basis of demand and supply forces.

### **Blue Chips**

Blue Chips are shares of large, well established and financially sound companies with an impressive records of earnings and dividends. Generally, Blue Chip shares provide low to moderate current yield and moderate to high capital gains yield. The price volatility of such shares is moderate.

**Bonus**

A free allotment of shares made in proportion to existing shares out of accumulated reserves. A bonus share does not constitute additional wealth to shareholders. It merely signifies re-capitalization of reserves into equity capital. However, the expectation of bonus shares has a bullish impact on market sentiment and causes share prices to go up.

**Book Closure**

Dates between which a company keeps its register of members closed for updating prior to payment of dividends or issue of new shares or debentures.

**Bull**

A bull is one who expects a rise in price so that he can later sell at a higher price.

**Bull Market**

A rising market with abundance of buyers and few sellers.

**Base Price**

This is the price of a security at the beginning of the trading day which is used to determine the Day Minimum/Maximum and the Operational ranges for that day.

**Buyer**

The trading member who has placed the order for the purchase of the securities

**Bid and offer**

Bid is the price at which the market maker buys from the investor and offer is the price at which he offers to sell the stock to the investor. The offer is higher than the bid.

**Brokerage**

Brokerage is the commission charged by the broker. The maximum brokerage chargeable is determined by SEBI.

**Basket Trading**

Basket trading is a facility by which investors are in a position to buy/sell all 30 scrips of Sensex in the proportion of current weights in the Sensex, in one go.

**Beta**

It is a standard measure of risk for an individual stock. It is the sensitivity of the movement of the past share price of a stock to the movement of the market as a whole. The beta of the market is taken as 1. A benchmark index (the Sensex, for instance) is taken as the proxy for the market.

Stocks with betas greater than 1 tend to amplify the movement of the market. If a stock has a beta of 1.20, it means that if the market has moved by 1%, the stock price would have moved by an extra 1.2%.

### **Bid**

This is the highest price at which an investor is willing to buy a stock . Practically speaking, this is the available price at which an investor can sell shares.

### **Bad delivery**

When physical share certificates along with transfer deeds are delivered in the market there are certain details to be filled in the transfer deed. Any improper execution of these details result in a bad delivery. A bad delivery may pertain to the transfer deed or the share certificate, and maybe because of the transfer deed being torn, mutilated, overwritten, defaced etc.

### **Buy limit order**

An order of buying a security with a condition that order will not be executed above the specific mentioned price.

### **Buy on close**

An order of buying a stock, but only at the end of the trading day. Security will be bought in the closing price range.

### **Breakout**

When the price of a stock surpasses its initial high (resistance level) or falls below the initial low (support level), it is termed as break out in technical analysis.

### **Book runner**

Institution that arranges and manages the book building process for the new public issue.

### **Beneficial owner**

The actual owner of the security, irrespective of who is holding the security.

### **Best ask**

The lowest price at which a stock is quoted to be sold.

### **Best bid**

The highest price quoted for a particular stock to be bought.

### **Bid/Ask spread**

The difference between the ask price and bid price.

### **Bourse**

The floor of a Stock Exchange.

### **Cash Settlement**

Payment for transactions on the due date as distinct from carry forward (Badla) from one settlement period to the next.

### **Clearing Days or Settlement Days**

Dates fixed in advance by the exchange for the first and last business days of each clearance. The intervening period is called settlement period.

### **Clearing House**

Each Exchange maintains a clearing house to act as the central agency for effecting delivery and settlement of contracts between all members. The days on which members pay or receive the amounts due to them are called pay-in or pay-out days respectively.

### **Correction**

Temporary reversal of trend in share prices. This could be a reaction (a decrease following a consistent rise in prices) or a rally (an increase following a consistent fall in prices).

### **Closing Price**

The trade price of a security at the end of a trading day. Based on the closing price of the security, the base price at the beginning of the next trading day is calculated.

### **Counterparty**

When a trading member enters an order, any other trading member with an order on the opposite side is referred to as the counterparty.

### **Carry forward trading**

Trading where the settlement of trades is postponed on the stock exchange until a future settlement period involving payment of interest on the account. It refers to the trading in which the settlement is postponed to the next account period on payment of contango charges (known as 'vyaj badla') in which the buyer pays interest on borrowed funds or the backwardation charges (a.k.a 'unda badla') in which the short seller pays a charge for borrowing securities.

### **Clearing**

Clearing refers to the process by which mutual indebtedness among members is settled. The clearing corporation matches the final buyers and sellers through multilateral netting. The members of the clearing corporation also known as clearing members settle their dues with the clearing house that is operated by the clearing corporation. The clearing corporation is the legal counter-party to both legs of every trade.

### **Company objection**

An investor sends the certificate along with the transfer deed to the company for transfer. In certain cases the registration is rejected if the shares are fake, forged or stolen or if there is a

signature difference etc;. In such cases the company returns the shares along with a letter which is termed as a company objection.

**Call**

This is the right, but not the obligation, to purchase shares at a specified price at a specified date in the future. See Options. For this privilege, the buyer pays a premium which would be a fraction of the price of the underlying security. You are gambling that the share price will rise above the option price. If this happens you can buy the shares and sell them immediately for a profit. If the share price does not rise above your option price, you do not exercise the option and it expires - all you have lost is the initial payment made to purchase the option.

**Option**

**Call**

The demand by a company or any other issuer of shares for payment. It may be the demand for full payment on the due date, such as, for example, with a rights issue. It may, alternatively, be the demand for a further payment when the total amount is payable by instalments. The calls are usually made several months apart by call letter and the shares are said to be paid-up when the final call has been paid. A call by a company should not be confused with a call option.

**Capital**

The test of a securities business's ability to meet its financial obligation. Capital adequacy rules mean that a bank/financial institution has to have enough money to conduct its business

**Adequacy**

**Capitalization**

The total value of the company in the stockmarket. This value is arrived at by multiplying the number of shares in issue by the company's share price. This market capitalization obviously fluctuates as the share price moves up and down. It's an important figure - if your company is worth £2 billion, you'll have more credibility with bankers and other companies you want to take over than if you're a little minnow with hardly any value.

**Capitalization**

Money from a company's reserves is converted into issued capital, which is then distributed to shareholders in place of a cash dividend. This is also known as a Scrip Issue.

**Issue**

**Call**

The risk that bonds will be redeemed (or "called") before maturity. This possibility increases during periods of falling interest rates.

**Risk**

**Capital**

An increase in the value of an investment, measured by the increase in a fund unit's value from the time of purchase to the time of redemption.

**Appreciation**

**Capital**

The amount by which an investment's selling price exceeds its purchase price.

**Gain**

**Capital**

A market where debt or equity securities are traded.

**Market**

**Commercial**

Debt instruments issued by corporations to meet their short-term financing needs. Such instruments are unsecured and have maturities ranging from 15 to 365 days.

**Paper**

**Commission**

A fee charged by a broker or distributor for his/her service in facilitating a transaction.

**Coupon**

Interest rate on a debt security that the issuer promises to pay to the holder until maturity. Usually expressed as a percentage of the face value

**Consideration**

Consideration is the total purchase or sale amount associated with a transaction. The amount you 'pay' or 'receive'. It may also be the basis for working out the commission, taxes and any other charges you are asked to pay.

**Contract**

On any securities market this is the agreement between a buyer and a seller buy or sell securities. The written agreement between the seller and the buyer to transfer ownership of the property from the former to the latter. It is a legally binding agreement for sale. In two identical parts, one signed by seller and one by purchaser. When the two parts are exchanged (exchange of contracts) both parties are committed to the transaction.

**Convertible**

Any security is described as convertible when it carries the right or option for the holder to at some stage convert it in for another form of security at a fixed price. Convertibles are often bonds or loan stock (but sometimes preference shares) which carry the right to be converted into ordinary shares at some date in the future at a previously specified price.

**Corporate**

A corporate bond is an IOU (Promissory Note) issued by a public company, such as HLL, ITC, TELCO etc. When you invest in a corporate bond, you are lending money to the company. In return you will receive interest at a fixed rate and the promise that your capital will be repaid at a certain date in the future. The guarantee that our capital will be returned is only as good as the company you are lending money to. While HLL, ITC, TELCO are considered 'good risks' by investment pundits because they are blue chip companies, other smaller companies are likely to be a less good risk.

**Bonds****Correction**

A correction is a term to describe a downward movement in share prices. In other words, a shake out or even a crash or mini-cash. Stockbrokers and fund managers like the term correction, perhaps because they believe if they use the term crash or 'heavy fall', it'll cause panic. Whatever you decide to call a downward jolt in share prices, if you lose money, it may be described as a correction, but you'll feel pretty sick all the same!

**Clearing**

Clearing refers to the process by which all transactions between members is settled through multilateral netting.

**Cum-bonus**

The share is described as cum-bonus when a potential purchaser is entitled to receive the current bonus.

### **Cum-rights**

The share is described as cum-rights when a potential purchaser is entitled to receive the current rights.

### **Carry Over Margin**

The amount to be paid by operators to the stock exchange to carry over their transactions from one settlement period to another.

### **Cash Settlement**

Payment for transactions on the due date as distinct from carry-forward (badla) from one settlement period to the next

### **Capital**

**loss**

The negative difference between the selling price of the stock and purchase price of the stock.

### **Cash**

**markets**

The markets where securities (assets) have to be delivered immediately.

### **Capital Asset Pricing Model (CAPM)**

A model describing the relationship between risk and expected return, and serves as a model for the pricing of risky securities. CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat required return then the investment should not be undertaken.

### **Circuit**

**breaker**

When a stock price increases or decreases by a certain percentage in a single day it hits the circuit breaker. Once the stock hits the circuit breaker, trading in the stock above (or below) that price is not allowed for that particular day.

### **Custodial**

**fees**

The fees charged by the custodian for keeping the securities.

### **Cumulative**

**preference**

**share**

Preference shares whose dividends will get accumulated, if the issuer does not make timely dividend payments.

### **Convertible**

**preference**

**shares**

Preference shares that can be converted into equity shares at the option of the holder.

### **Commercial Paper (CP)**

CPs are negotiable, short-term, unsecured, promissory notes with fixed maturities, issued by well rated companies generally sold on discount basis.

### **Counter-party risk**

It is the risk that the other party to a contract may not fulfill the terms of a contract.

### **Dividend**

This is the income you receive as a shareholder from a company. When you buy an ordinary share in a company, you become a shareholder (an owner of the business) and to that extent you will have certain entitlements including the right to receive dividend payments as set by the board of directors and approved by the shareholders (sometimes called members.) A dividend is a cut of the profits earned by the business for the year. This pay-out is not guaranteed and where it exists at all, the amount you'll receive will vary from company to company and year to year.

### **Dividends from Mutual Funds**

Mutual Fund dividends are paid on the face value of the units (usually Rs. 10 per unit). Unlike a dividend from an equity share, mutual fund dividends are not necessarily paid out of the profits of the scheme. As such, after the payout of the dividend, the Net Asset Value (NAV) of the scheme falls to the extent of the payout.

### **Day**

Day trading is the buying and selling of stocks during the trading day by individuals known as day traders on their own account. The aim is to make a profit on the day and have no open positions at the close of the trading session, the day.

### **Trading**

### **Debenture**

A loan raised by a company, paying a fixed rate of interest and which is secured on the assets of the company. Debentures are fixed interest securities in return for long-term loans, they tend to be dated for redemption between ten and forty years ahead of the date of issue. They may be secured by a floating charge on the company's assets or they may be tied to specific, named assets. Debenture interest has to be paid by a company whether it makes a profit or not - if the debenture holders do not get paid they can legally force the company into liquidation to realise their claims on the company's assets.

### **Derivatives**

Instruments derived from securities or physical markets. The most common types of derivatives that ordinary investors are likely to come across are futures, options, warrants and convertible bonds.

Beyond this, the range of derivatives possible is only limited by the imagination of investment banks. In other words, new derivatives are being created all the time. It is likely nowadays that any person who has funds invested will unwittingly perhaps be indirectly exposed to derivatives.

### **Delivery**

A transaction may be for "spot delivery" (delivery and payment on the same or next day) "hand-delivery" (delivery and payment on the date stipulated by the exchange, normally within two weeks of the contract date), special delivery (delivery and payment beyond fourteen days limit subject to the exact date being specified at the time of contract and authorized by the exchange) or "clearing" (clearance and settlement through the clearing house).

### **Day Minimum/Maximum range**

The minimum/maximum price range for a security on a trading day. Buy orders outside the Maximum of the range and sell orders outside the Minimum of the range are not allowed to be entered into the system. It is calculated as a percentage of the Base price.

### **Day order**

A day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, at the end of the trading day the order gets cancelled automatically

### **Dealer**

A user belonging to a Trading Member. Dealers can participate in the market on behalf of the Trading Member.

### **Disclosed Quantity (DQ)**

A dealer can enter such an order in the system wherein only a fraction of the order quantity is disclosed to the market. If an order has an undisclosed quantity, then it trades in quantities of the disclosed quantity.

### **Demat trading**

Demat trading is trading of shares that are in the electronic form or dematerialised shares. Dematerialisation is the process by which shares in the physical form are cancelled and credit in the form of electronic balances are maintained on highly secure systems at the depository

**Date of payment**  
Date on which dividend cheques are mailed.

**Deferred taxes**  
Amount allocated during an accounting period to cover tax liabilities that have not yet been paid and also may not have accrued. For instance, a heavy advertisement expenditure capitalized may give significant tax break.

**Delivery price**  
The price fixed by the clearing house at which deliveries on futures are to take place. In practice, at this price contracts are settled by payment or receipt of the difference.

**Delivery date**  
The date on which forward or futures contract for sale falls due.

### **Dividend yield**

Annual dividend paid on a share of a company divided by current share price of that company.

**Diversification-**

Investing in a basket of shares with different risk-reward profile and correlation so as to minimize unsystematic risk.

**Discounted payback period**  
 Period in which future discounted cash in- flows equal the initial outflow.

**Discount factor :-**  
 Expected rate of return by which, future cash flows are deflated. The discount rate is annual rate and deflating future cash flow takes place in a compounded manner.

**Downgrade**  
 Refers to lowering of ratings for a share by analysts, intermediaries or investors.

**Ex-bonus**  
 The share is described as ex-bonus when a potential purchaser is not entitled to receive the current bonus, the right to which remains with the seller.

**Ex-rights**  
 The share is described as ex-rights when a potential purchaser is not entitled to receive the current rights, the right of which remains with the seller.

**Earnings Per Share (EPS)**  
 It is the most important measure of how well (or otherwise) the board of directors are doing for the shareholders. This measure expresses how much the company is earning for every share held. The calculation is 'pre-tax profit dividend by the number of shares in issue'. Earnings per share is more important than the overall reported profit figure ! The reason is that EPS provides a more pure measure of profitability.

**Eurobond**  
 A Eurobond is a medium or long-term interest-bearing bond created in the international capital markets. A Eurobond is denominated in a currency other than that of the place where it is being issued. Eurobonds are only issued by major borrowers, such as governments, other public bodies or large multinational companies.

**Ex Dividend**  
 This is a share sold without the right to receive the declared dividend payment that is marked as due to those shareholders who are on the share register at a pre-announced date. The stock market authorities usually specify the date on which a share will begin trading ex div. The share price invariably drops when the share goes ex dividend, taking the known income of the dividend out of the share price.

**Ex Coupon**  
 A stock or bond sold without the right of receipt of the next due interest payment.

## **ESOP**

Employee Stock Option Plan is a trust established by a company to allot some of its paid-up equity capital to its employees over a period of time. They are used to reward employees.

**Exercise price**  
The pre-determined price at which the underlying future or options contract may be bought or sold.

**Exercising the option**  
The act of buying or selling the underlying asset via the option contract.

**Efficient capital market :-**  
A market in which all the players have all the material information at their disposal at the same time.