

FREE 7-Part Stock Investing Kit for Beginners

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FREE Stock Investing Video Lessons

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Following you will find investment terms; (i) you must know before you start investing in stocks, (ii) you probably should know, and (iii) it would be a good idea if you did know but its not really necessary to start.

(i) The investment terms you absolutely must know – before you start investing

Ask Price – the lowest price a seller is willing to accept when selling the stock.

At Limit – setting the minimum price at which you wish to sell, or the maximum price at which you wish to buy, the stock on the market.

Bear market – a term used to describe a market that is *falling* (as opposed to a Bull, or Bullish, market which is a market that has either risen already or is expected to do so).

When I first started out as an investor and was finding it difficult to come to terms with the myriad of investment terms – I used little tricks to jog my memory.

For example, for a '**bear**' market I visualized a bear, clawing things DOWN, and for a '**bull**' market I pictured a bull with his horns, throwing things UP in the air. Try it, it works a treat. It helped make me wealthy!

Bid Price – the price at which an investor may sell shares to the market. The opposite is an Ask Price.

Book Value – the value of a company if all liabilities are subtracted from the total assets.

Broker/Dealer – a member of an Exchange who functions both as a market maker (setting a price) and as the stockbroker (buying and selling the shares).

Blue Chip Stock – a company that has a history of solid earnings, regular and ever increasing dividends, an impeccable balance sheet and regarded as a safe if unspectacular investment.

Blue Chip companies are nearly always large and quite conservatively managed.

(As a matter of interest, the term 'blue chip' was originally a reference to the highest value poker chip.)

Bull Market – when the majority of stocks are rising in price, and continue to do so over several months.

Capital Gain – the profit you make when you sell your stock (on the other hand if you make a loss, that's called a Capital Loss).

Commission – the percentage a particular broker/dealer charges you for his/her services.

Dividend – the distribution of profits to the company shareholders.

Dow Jones Industrial Average (DJIA) – this is the most popular and widely used measure of the US stock market and for good reason. It consists of a price-weighted (inclusion depending on price) list of 30 highly traded Blue Chip companies.

The Dow is watched by investors to indicate the health and direction of the stock market as a whole.

EPS (Earnings Per Share) – shows how a company is performing for shareholders. It's worked out by dividing the profits by the number of shares issued.

Equities – alternative name for stocks and shares.

Exchange (Stock Exchange) – the marketplace where members gather to trade securities on behalf of both themselves and others.

Exposure – the risk taken when you are buying or selling the shares.

Gross – before the deduction of taxes or commissions. *(The opposite of which is "Net" – what you receive after deductions have been made).*

Holding – the number of shares you own in any one company.

New Issues – companies that are either coming onto the market for the first time or are issuing new shares.

Offer Price (sometimes referred to as the “ask” price) – the price at which you can buy from the market.

Ordinary Shares – the most common type in issue, are fully paid shares which carry voting rights.

P/E Ratio (Price/Earnings Ratio) – obtained by dividing the share price by the EPS. Shows the investor how the company is performing. A high P/E ratio suggests that the market holds a good view of the future earnings of the company concerned.

Let's look at an example. If a company reports a profit of \$2.50 per share, and the stock is selling for \$15 per share, the P/E ratio is 6, because you are paying six-times earnings (\$15 per share divided by \$2.50 per share earnings = 6/PE).

Portfolio (of stocks/shares) – your collection of stocks in the various companies you have an interest in.

Prospectus – a paper issued by a company when wishing to invite potential investors into purchasing shares in their company. Prospectus's are mainly used for this purpose during a flotation.

Settlement – the transferring process of ownership of the stocks and cash between the buyer and seller.

Types of Shares – there are two types of stock, **Common** and **Preferred** – with by far the most prevalent being Common. That's what we'll be referring to in this book.

(ii) Investment terms you should know

Cash Dividend – is simply a cash payment per share you hold.

Fund Manager – individual or company that invests money on behalf of their clients.

Inflation – the rate at which prices rise for a basket of commodities. Usually restrained by the movement of interest rates.

Interim Dividends – a company's distribution of profits to shareholders halfway through the financial year.

Market Capitalization – number of shares in an issue multiplied by the share price.

Mergers – the joining together of two companies to form one – thereafter sharing assets, clients, debts and so on.

Return on Net Assets –the profit before interest and tax (of the company) expressed as a percentage of the net assets.

Yield – the annual dividend or interest income expressed as a percentage of the price of the shares/stocks or bonds.

Say the stock is trading for \$10 per share and it pays a dividend of \$0.75 per share. The yield would then be 7.5%, because for every \$10 you invested, you'd receive 7.5% back annually on your money (75¢).

(iii) Investment terms that it would be a good idea if you knew – but you don't positively need them to start with.

AGM (Annual General Meeting) – this is where directors are appointed and reappointed, the Annual Report and Accounts are presented, views are aired and a range of matters discussed and resolutions passed.

ARCs (Annual Reports & Accounts) – all PLCs (publicly listed companies) are obliged to make these available to shareholders. They set out the company's yearly financial performance.

Discount – when the market price of a newly issued company is lower than the stock's issue price.

EGM (Extraordinary General Meeting) – any meeting of the company shareholders that is not the AGM.

Gearing – a company's debts expressed as a percentage of its equity. Watch out for a high gearing (which of course would signify the debts are high).

Premium – the opposite of a discount, being an increase in the price of a newly issued stock, over the issue price.

Tender Offer – potential investors are asked to stipulate the offer price per share that they are willing to pay.

Volume – the number of shares of stock traded in a day.

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