Trading Glossary

Absolute Return
An investment objective that aims to generate positive returns, regardless of the overall direction of markets/asset classes etc. Absolute Return is distinct from traditional fund managers, who benchmark their returns to an Index/Sector or even a Factor.

Alpha
Alpha is a measure of the performance of an investment in relation to a benchmark index. Often specified as a percentage, an alpha of 1% means that the return on investment was 1% better than the benchmark.

Alternative Investment Market
The Alternative Investment Market (AIM) was first established in 1995 by the London Stock Exchange as a way for newer firms to gain access to public funds.

Altman Z-Score
Devised in the 1960s by Edward Altman, the Altman Z-Score indicates the probability of a company entering bankruptcy within the next two years.

American Depository Receipt (ADR)
An American Depository Receipt (ADR) allows US investors easier access to ownership of foreign public companies. They are also beneficial for foreign companies as they enhance investor interest in their shares beyond their own domestic market.

Amortisation
Amortisation has two distinct meanings: The practice of reducing the value of assets to properly reflect their value over time; and, the servicing of debt in regular increments.

Annuity
An annuity is a product that can provide you with a lifetime income, typically on retirement. Annuities are viewed as a way to hedge against longevity risk, or the potential for one to outlive one's invested assets.

Asset Allocation
An investment strategy that weights different assets in a portfolio according to an agreed investment policy that balances risks and returns. Percentages are allocated to each asset grouping according to a pre-determined investment strategy dependant on the investors' risk tolerance. The allocation could be described as Cautious, Balanced or Aggressive.

Auditor

The law requires an independent person (an 'Auditor') to sign off that a firm's financial statements are "true and fair" and have been prepared using the relevant legislation.

B/C Share Scheme

Companies occasionally hand cash back to shareholders by issuing new types of shares, typically called B shares and C shares, and hence deemed a B/C share scheme. Each shareholder has the choice of which type of share they wish to receive.

Backtesting

Backtesting is a method for assessing the validity of a trading strategy by using historical data to see how an asset (or portfolio of assets) would have performed in past periods. If results were successful, it might encourage traders to use that strategy going forward.

Backwardation

If the current cash price for an asset slips above the price for forward delivery, that's known as 'backwardation'.

Balance of Payments

The balance of payments refers to the accounts that sum up a country's financial position relative to other countries.

Baltic Dry Index

The Baltic Dry Index (BDI) is a key barometer of global freight activity – measuring the cost of ferrying raw materials around the planet.

Bank Of England

The Bank of England is the UK's central bank. It started life in 1694 as a private bank set up by London merchants as a vehicle to lend money to the government and to deal with the national debt.

Beta

Beta (or the 'beta coefficient') is a way to measure the relative riskiness of a share.

Bid-offer spread

The bid-offer spread, sometimes called the bid-ask spread, is simply the difference between the price at which you can buy a share and the price at which you can sell it.

Big Bang

The Big Bang refers to the deregulation of the London Stock Exchange (LSE), which took place on 27 October 1986.

Blockchain

Blockchain, and the related concept of cryptocurrency, are phrases that have been thrown around a lot following the rise of Bitcoin. Blockchain technology has potential in all manner of computing-related fields. Blockchain is essentially a new system for keeping records, but its relevance to trading and its investment potential are not immediately obvious.

Bond Auction

When governments want to raise money, they do so through a bond auction by issuing bills (typically short-term) and bonds (longer term – maturities can reach 30 years or more).

Bond Duration

Bond duration is a measure of how long it will take to reach a bond's mid point in cash-flow terms. For example, if a bond's duration is 3.6 years, that specifies that one will receive one's original investment back in that length of time through its coupon payments (assuming no default).

Bond Rating

The risk of default on bonds varies from issuer to issuer. Credit-rating agencies provide these securities with a bond rating to help you gauge their risks.

Bond Vigilantes

Bond vigilantes refer to market participants who effectively self-regulate interest rates via the buying and selling of bonds in accordance with their perceived intrinsic value.

Bond Yields

An investor buying a bond needs to know what return to expect. The most common form of bond yields – annual yield on a fixed income security – is determined by taking the annual coupon payouts and dividing them by the market price of the bond.

Bonus Issue

A bonus issue is common among British companies, wherein free additional shares are added to the positions of existing shareholders. Bonus issues are synonymous with scrip issues or capitalization issues.

Book Value

Book value is the total value of the net assets of a company attributable to – or owned by – shareholders. It is calculated as the net asset value of a company, defined as the total tangible asset base (i.e., total assets minus intangible assets) minus total liabilities.

Bottom-up investing

Bottom-up investing is a strategy that overlooks the significance of industry or economic factors and instead focuses on the analyses of individual stocks and companies.

CAPEX Capital Expenditure

Capital Expenditure (or CAPEX) is money used by a company to buy, maintain or up-grade its fixed assets, be they newly acquired buildings, land or equipment.

Capital Ratio

Capital Ratio is a measurement of the amount of Equity and Debt funding required to maintain a given level of assets within a firm. Generally, the higher the ratio, the more a company has borrowed (either by raising equity or borrowing money) as a proportion of its total assets.

CAPM - Capital Asset Pricing Model

The Capital Asset Pricing Model establishes the link between the expected return for an asset and systematic risk. The CAPM uses a simple mathematical formula. Although debunked and not widely used anymore, this pricing model is conceptually sound.

Cash Flow

Cash flow is the amount of money both going into, and out of, a company during the course of a period, normally a financial year.

Clearing House

A Clearing House is an intermediary entity acting as a trade-facilitator between the buyer and the seller in the financial markets. An indispensible cog in the system, the clearing house settles buyer/seller accounts, collects margin, clears trades and reports trading data to all parties concerned.

Commodity Forwards

Forward contracts are non-standardised agreements between two parties, concerning the future delivery of a commodity for a presently set price. Commodity forwards contracts are customisable. They are not traded through centralised exchanges and are therefore considered to be OTC (over the counter) instruments.

Contango

Contango: A situation most common in commodity futures markets, whereby the price for delivery in the future is above that of the spot (or price for immediate delivery). In this situation, the market is implying higher prices in the future, resulting in an upward sloping forward curve. As the futures contract gets closer to expiry, the price will converge (downwards) to the spot price.

Convertible Bonds

Convertible Bonds are bonds issued by Corporations that can be converted into shares in the firm should the holder so prefer. In return for this opportunity, their yields tend to be below that of non-convertible bonds but above the yields available on the common stock. They can be seen as a bond with a stock call option attached.

Convexity

Convexity is a concept in finance where there are non-linearities in a potential output after adjusting an input variable.

Correlation

Correlation describes the mutual relationship between two independent values. The most basic use of correlation in trading is in finding out whether there's a relationship between two variables and, if there is, what kind of relationship it is. The number is generally given as a figure between -1 and 1, where -1 implies a negative correlation, 0 represents no correlation whatsoever, and 1 implies a positive correlation.

Covered Bonds

Covered Bonds: A type of derivative instrument, normally issued by a financial institution, that are collateralised by an underlying pool of investments. It can be seen as a conventional corporate bond with added collateral protection for the investors.

Credit Default Swap (CDS)

A derivative instrument originally intended to allow an investor to transfer the risk of default, though in 2008, investors also began to use them to speculate on a particular firm's credit risk. They are essentially insurance against the risk of bankruptcy of a firm, a country or a non-government local authority; the buyer of a CDS pays an annual premium to the seller and receives a pre-agreed sum should the debt default.

Currency Risk

Also known as FX-risk and exchange-rate risk, currency risk stems from the fluctuation of the exchange rate between two currencies. Companies engaged in cross-border operations are most exposed to currency risk. Such operations may experience unexpected profit or loss due to currency rate fluctuations - this is currency risk.

Cyclical Stocks

Cyclical Stocks are those company's whose line of business means that their fortunes will to a large extent depend on the ups and downs of the economy. As the economy strengthens, theses firms will see higher returns and vice versa when the economy declines. They tend to experience higher price volatility in exchange for these higher expected returns.

Cyclically Adjusted Price Earnings Ratio (CAPE)
Cyclically Adjusted P/E: Popularised by Robert Shiller at the end of the 1990's, this metric (known by the acronym CAPE), is an attempt smooth out the cyclical fluctuations in corporate profits that can make assessment of a traditional P/E ratio difficult to employ.

Dark Pool Trading
Dark pool trading involves legal private securities marketplaces that allow institutional investors to deal large blocks of shares, known as block trading, without revealing their secrets. While helpful to capital markets and retail investors, as dark pool trading volumes grow, they continue to face pressure from regulators who are uneasy about their opaque nature.

Defensive Stocks
Defensive stocks are based on underlying assets which tend to be less prone to economic and credit cycles than others. Because of this, they're generally invested in when traders see an economic slowdown approaching and want to hedge their portfolios.

DeFi - Decentralized Finance
Decentralized finance, or DeFi, is about using technology to cut out the traditional banks and other institutions from financial transactions. It's a collective term for open financial products and services typically built on blockchain technology like Ethereum.

Deflation
Deflation is a process over which the nominal prices of goods and services drop. At a glance, deflation is positive from the perspective of the consumer. It directly boosts purchasing power. At a closer look, it is, however, akin to poison for the economy.

Delta
Delta (Δ) measures the rate of change of an option's value (V) with respect to the change in an underlying asset's price (S).

Depreciation
Depreciation is the accounting practice of spreading out the cost of a fixed asset over time and deducting it from taxable income. The practice works according to rules set by the IRS (or other competent taxation authorities).

Derivatives
Derivatives are financial securities whose value is based on that of an underlying asset. They allow traders to make money from a variety of asset classes, including stocks, currencies and commodities, without having to hold the underlying security.

Discount Rate
In finance, Discount Rate can have two meanings; the first is the interest rate charged by a Central Bank for loans taken directly from them by financial institutions. The second is the interest rate used by analysts and corporate financiers to translate future cash flows back to their present-day value.

Diversification
Diversification is an investment strategy focused on risk mitigation. It calls for the creation of a portfolio that contains a wide variety of investments. The logic behind it is that the possible negative yields of some investments are neutralized by the positive yields of other investments in the portfolio.

Dividend
A dividend is a portion of a company's annual earnings that it opts to return to its existing shareholders as a reward for them having invested in a firm. It can also act as a "signalling mechanism", that the firm is profitable and that future prospects for the company are bright.

Dividend Cover
Dividend cover is a financial metric that divides the Earnings Per Share of a firm by the dividend per share paid out to shareholders.

Earnings Per Share (EPS)
Earnings per share (EPS) is a financial ratio which computes how much a firm earns in net profits which is attributable to common shareholders. It is calculated by dividing net earnings by the average number of shares outstanding in a given time period.

EBITDA
EBITDA (pronounced ee-bit-dah) is an acronym that refers to a company's earnings before interest, taxes, depreciation, and amortization.

Elliott Wave Theory
The Elliott Wave Theory makes use of fractal, repetitive patterns to predict future market movements. It was developed in the 1930s by Ralph Nelson Elliott. Elliott recognized the fact that investors' psychology gives rise to certain "wave" patterns in asset price action.

Equity Risk Premium
The Equity Risk Premium (ERP) is the return offered by an individual share over and above the Risk-Free Rate of Return (one can use either nominal (T-bills) or real rates (US TIPS) to generate the RFRR. It is the potential reward offered for taking the risk of investing in shares.

Exotic Options
Exotic options are financial instruments that have more unique features than traditional vanilla options.

Fed Put
The 'Fed Put' is the widespread belief that the US Federal Reserve (commonly referenced as "the Fed") can always rescue the economy and financial markets. The term originates from the analogous comparison of selling a put option on the market.

Fibonacci
Named after 13th century mathematician Leonardo Fibonacci, the Fibonacci Theory consists of a sequence of numbers. Every number in the sequence (0, 1,1,2,3,5,8,13,21 etc) is obtained by adding up the two preceding numbers. Traders derive technical indicators from this sequence, through various mathematical artifices.

Foreign Exchange Reserves
Foreign exchange reserves are foreign currency funds and various foreign assets held by a country's central bank, or other monetary authority. The purpose of these reserves is to allow the said authority to pay its liabilities. Such liabilities may arise from the currency issued by the central bank, as well as from the deposits held with it, by the government and various financial institutions.

Gamma
Gamma is the rate of change in delta (Δ) with respect to changes in the underlying price of a security.

Gearing
Gearing (in finance) refers to the proportion of a company's business assets that are funded by debt relative to that financed by equity.

Information Ratio
The information ratio, sometimes called the appraisal ratio, works to measure the risk-adjusted return of a financial asset portfolio (collection of assets).

Interest Rate Swaps
Interest rate swaps are a trading area that's not widely explored by non-institutional investors, largely because of the lack of mainstream coverage and availability provided by online brokers.

Interest Rates
An interest rate represents the amount of interest that is due per period in relation to the amount borrowed, lent, or deposited. Interest rates can refer to any period of time, but it generally takes the form of an annual percentage.

Kurtosis
Unlike Skew, which measures the distribution symmetry, Kurtosis describes the extent to which the tails (or extremes) of a set of data differ from those of a normal distribution. A bell curve distribution would exhibit kurtosis of 3, so only numbers above or below 3 can be described as "excess" Kurtosis.

Price Earnings Ratio (P/E Ratio)
The price earnings ratio, commonly known as the P/E ratio or sometimes PER, is the ratio of a company's share price relative to its earnings per share (EPS).

Pump And Dump
Pump and dump refers to an illegal practice in trading that attempts to boost the price of stocks. The scheme works by providing exaggerated or misleading information to prospective buyers, in the hope of persuading a large number of people to purchase the stock. When a surge of people buy it, the price goes up, and the perpetrators of the scam then sell their own stock at highly inflated prices.

Rate Of Change (ROC)
Rate of Change (ROC): In finance, this refers to the speed at which an asset's price changed over a set period, either in percentage or in absolute terms.

Risk Reversal
A risk reversal is a trading strategy that involves simultaneously buying an out-of-the-money call option and selling an out-of-the-money put option (or vice versa) on the same underlying asset to express a directional market view.

Sharpe Ratio
The Sharpe ratio is a way to determine how much return is achieved per each unit of risk. It is useful to, and can be computed by, all forms of capital market participants to evaluate their performance, from day traders to long-term buy-and-hold investors.

Skew Or Skewness
Skew (or skewness) measures the extent to which a set of data differs from a normal (or symmetrical) distribution, which is characterised by a bell curve shape of the data and a similar spread of data on either side of both the median and mode values.

Sortino Ratio
The Sortino ratio is a means for traders and investors to gauge the risk-adjusted performance of their portfolios or strategies. Namely, they can determine how much return they generate per each unit of risk.

Standard Deviation
Standard Deviation: A statistical measurement of the amount of variability (or dispersion) in a dataset, describing how far away the values are from the mean/average. The higher the Standard Deviation, the further away from that mean the values are and vice versa with a low SD.

Trading Slang
Internet trading slang is forever evolving so don't get caught out not understanding the latest lingo. This jargon buster unpacks key trading terms with definitions and examples.

Treynor Ratio
The Treynor ratio, also commonly known as the reward-to-volatility ratio, is a measure that quantifies return per unit of risk. It is similar to the Sharpe and Sortino ratios.

Volume Weighted Average Price (VWAP)
Volume Weighted Average Price (VWAP) is the average traded price of an asset over a given period (usually a day) weighted by the total trading volume at the various prices traded throughout the period.

VSTOXX
VSTOXX is a method of showing implied volatility across a basket of Eurozone stocks (Euro STOXX 50). The VSTOXX number provides a benchmark of market volatility in European markets.

Williams % R
Williams % R: A Momentum Oscillator that ranges between 0 and -100, being defined as overbought and oversold levels, respectively.

Bovespa
The Bovespa (or Ibovespa) is the Brazilian stock market's benchmark index.

Break even
The break-even point on an option is the price that the underlying asset has to hit in order to enable the option buyer (holder) to recover their premium.

Bullet repayment loan
A 'bullet repayment loan' is one where the borrower repays the capital in one chunk at the end of the term of the loan.

Buyouts and buyins
A management buyout (MBO) occurs when the management of a company buys up a controlling interest (often by buying all outstanding shares).

CAC-40
The CAC-40 is France's benchmark stockmarket index.

Capital adequacy
Central banks impose capital adequacy ratios (also known as solvency ratios) that set the amount of its own money a bank needs to have relative to its total loan portfolio.

Carry trade
Carry trades seek to make money from the fact that the interest rates set by central banks around the world vary considerably.

Chapter 11
Chapter 11 of the American bankruptcy protection laws effectively puts a protective ring around a company, winning it time to renegotiate its debts and stopping creditors from claiming assets.

Closet tracker funds
An active fund with a portfolio of stocks that is little different from the overall market is called a "closet tracker".

Cognitive bias
We use mental shortcuts (heuristics) to make decisions rapidly. These work in many circumstances, but when it comes to investing, they can be a major handicap, giving rise to "cognitive biases".

Compound interest
When you invest money, you earn interest on your capital. The next year, you earn interest on both your original investment plus the interest from the year before.

Contagion
When used in financial markets, contagion is a term associated with the kind of market turmoil seen in 2007 as well as previous crises such as those of 2001 and 1998.

Continuation vote
An investment company's articles of association often provide for shareholders to vote on whether the company should continue to exist. This is known as a continuation vote.

Contracts for difference
Entering into a contract for difference, or CFD, involves making a bet on the movement of share prices…

Convertible rights
Also known as 'conversion rights', these give the buyer of a preference share or bond the right to convert it into a set number of ordinary shares for a pre-agreed 'strike' price at an agreed point in the future.

Coppock indicator
The Coppock Breadth Indicator, originally known as Trendex's Timing Technique for Texas Traders, is used to identify buy signals from around the bottom of a bear market…

Cost of capital
Making a business successful is simply down to ensuring you earn more than your costs…

Cost of equity
A company's cost of equity is the annual rate of return that an investor expects from a firm in exchange for bearing the risk of owning its shares.

Currency risk
This is the type of risk that comes from the change in price of one currency against another.

Current account surplus/deficit
This is a measure of the position of one country relative to the rest of the world in terms of imports and exports.

Daily repricing
Daily repricing is a feature of exchange-traded funds (ETF) and can affect your expected performance, especially on inverse products.

Dark liquidity pools
'Dark pools' covers any share trade conducted directly between investing institutions, such as banks and hedge funds, rather than via a regulated exchange.

DAX
The DAX is Germany's blue-chip index, the most cyclical of the major western indices, with almost 80% of it comprised of economically sensitive industries.

Debt swap
There are several possible ways in which a debt swap can be done. However, the aim is usually the same – to refinance a borrower and strengthen its balance sheet.

Debt to equity ratio
The debt-to-equity ratio of a company is simply its level of debt (any type of borrowed money) divided by equity (the shareholders' money in the business).

Debtor and creditor days
Investors looking for an indication of a firm's commercial power may look at how fast it pays customers and suppliers.

Defined benefit & defined contribution pensions
In a defined benefit pension, you are guaranteed an income in retirement, calculated as a percentage of your final or average earnings.

Deleveraging
Before the credit crunch, firms and households expanded through 'leverage' – borrowing to buy assets. 'Deleveraging' is this process in reverse.

Delta One
Delta One refers to the way a bank hedges its long and short exposures across a portfolio of investments.

Depositary receipt
A depository receipt allows investors to access overseas shares in their own market and currency.

Dilution
In the world of finance, dilution means something is being watered down, typically earnings per share.

Discounted cash flow
Discounted cash flow is simply a method of working out how much a share is fundamentally worth based on the present or discounted value of expected future cash flows.

Discounting
Discounting is expressing cash received in the future in today's money because inflation erodes the value of money over time.

Dividend yield
The dividend per share (total dividends paid out divided by total number of shares) expressed as a percentage is referred to as the dividend yield.

Diversification
Diversification is the process of dividing your wealth between different investments to avoid being too reliant on any single one doing well.

Dogs of the Dow
Fans of this theory say that bargains can be spotted by looking for high dividend yields – the annual dividend as a proportion of the current share price.

Dow Theory
Dow theory is often used as an indicator of when a bear market may be about to start.

Duration
Duration is the point at which a bond reaches the mid-point of its cash flows.

Earnings yield
The earnings yield is a firm's earnings per share for the most recent 12 months divided by the share price – effectively the opposite of the p/e ratio.

Enterprise value
This measure's the total value of a business by combining the market value of equity and net debt as an estimate of what a predator would pay for it.

Equity free cash-flow yield
Equity free cash-flow is the cash generated each year for shareholders after certain 'non-discretionary' expenses have been paid.

Equity risk premium
When buying a security such as a share, every investor should have an expected return in mind.

ESG investing
ESG stands for environmental, social and corporate governance, the areas in which good behaviour is particularly sought.

Eurobond
This describes any international corporate or government bond that is denominated in a currency held outside its country of origin.

EV to sales ratio
Enterprise value is the sum of a firm's market capitalisation and its net debt (short- and long-term debt minus cash).

EV/Ebit ratio
Enterprise value to earnings before interest and tax (EV/Ebit) is a way of deciding whether a share is cheap relative to its peers or the wider market.

EV/Ebita ratio
EV/Ebita is a valuation method often used by analysts, sometimes used instead of the p/e ratio to compare growth between firms in heavy debt sectors.

Exchange-traded fund (ETF)
An exchange-traded fund (ETF) is an equity-based product combining the characteristics of an individual share with those of a collective fund.

FCF yield
The free cash flow (FCF) yield is a way to decide whether a firm is cheap or expensive based on its cash flows rather than, say, its earnings.

Final salary and money purchase pensions
With a money purchase scheme, the size of your pension depends entirely on the value of your fund when you retire.

Fiscal cliff
The phrase 'fiscal cliff' was coined to capture the large and predicted reduction in the US budget deficit expected as specific laws kicked into effect from 2013.

Fiscal policy
Fiscal policy includes any measure that the national government takes to influence the economy by budgetary means.

Fixed assets
The phrase 'fixed assets' covers all assets that the business intends to keep for more than a year.

Flipping
Flipping is when you make an offer on a property and then either look to secure a new buyer at a higher price before you close on the deal, or wait for it to rise in value, then sell on.

Floating rate note
A floating rate note is a form of security that carries a variable interest rate which is adjusted regularly by a margin against a benchmark rate such as LIBOR.

Flotation / IPO
A flotation is the process of launching a company on to the stock market for the first time by inviting the general public and investment institutions to subscribe for shares.

Foreign exchange reserves
Foreign exchange reserves are stockpiles of foreign currencies held by governments.

Free cash flow
Free cash flow is a pure measure of the cash a company has left once it has met all its operating obligations.

Free cash flow per share
Free cash flow per share takes the annual cash flow available to pay dividends and divides by the number of ordinary shares in issue.

Free cash flow yield
Free cash flow yield (FCFY) is a ratio used to work out the cash flow return on a share as a percentage.

Free float
Free float refers to the percentage of a company's total voting shares that are freely traded and could therefore be held by anyone.

FTSE 100
The FTSE 100 is Britain's 'blue-chip' stock index.But its makeup means it is more of a global index than a snapshot of UK plc.

Futures
A future is a tradeable contract that commits you to taking delivery (if you buy), or making delivery (if you sell), of an agreed amount of something at an agreed time.

GDP
Gross domestic product (GDP) is a measure of the total amount of goods and services produced by a country in a specific period of time, usually a year or a quarter.

Gilt
A gilt-edged security (gilt) is a government bond – a security or stock issued by the government paying a fixed rate of interest and redeemable on a set date for a set amount.

Gilt yield
Gilt yields express the return on a gilt as an annual percentage.

Global depository receipt (GDR)
Global depositary receipts (or GDRs) offer a solution for investors wanting to buy shares listed in countries where there are government restrictions on who can own and trade them.

Going concern
A firm is seen as a 'going concern' if its auditors believe it will stay in business for the 'foreseeable future'.

Gordon's growth model
Gordon's growth model is a very simple but powerful way of valuing shares based on a company's future dividends. It is sometimes called a "dividend discount" model.

Government-sponsored enterprises (GSEs)
The term 'government-sponsored enterprises' (GSEs) refers to three US organisations – Freddie Mac, Fannie Mae and Ginnie Mae – which all play a crucial role in the US mortgage market.

Handle
'Handle' is traders' jargon for the whole-dollar amount of a security quote.

Hang Seng index
Hang Seng is Hong Kong's benchmark index of stocks.

Hedonic accounting
When measuring inflation, some countries, such as the US, take into account changes in the quality of goods in a process known as 'hedonic' price adjustment.

Hostile takeover
A company's directors may feel that a takeover bid undervalues the shares, and so do not recommend the offer to shareholders. The bidding company can instead approach the shareholders directly.

Index-linked gilts
Index-linked gilts are sterling bonds issued by the Bank of England and listed on the London Stock Exchange, introduced to act as a hedge against inflation for pension funds.

Index fund
Index funds (also known as passive funds or "trackers") aim to track the performance of a particular index, such as the FTSE 100 or S&P 500.

Individual savings account (Isa)
Individual savings accounts (Isas) are a way of saving and investing without paying income tax or capital gains tax.

Individual Voluntary Arrangement (IVA)
Individual Voluntary Arrangements are an alternative to bankruptcy, whereby a debtor in financial difficulty comes to an arrangement with his creditors on how the debt will be cleared.

Initial public offering (IPO)
An initial public offering (IPO) is the process of launching a firm on to the stock exchange for the first time by inviting the general public and financial institutions to subscribe for shares.

Interest cover
Interest cover is an affordability test. It compares the profit before tax (PBT) figure to interest charged in the profit and loss account.

Internal rate of return
The internal rate of return of a bond is essentially the rate of return implied by its total cash flows.

Inverted yield curve
A yield curve shows the relationship between the yield on securities and their maturities (how long it is until they can be redeemed at their face value).

Investment trusts
An investment trust is a company whose business is to invest in other companies.

Kospi
The Kospi is South Korea's benchmark stock market index. It is typical of emerging markets, in that it is highly exposed to the global economic cycle.

Leverage
'Leverage' is a US term that is also known as 'gearing'. Both express the extent to which any transaction is financed by debt from lenders as opposed to capital provided by the investor.

Leveraged buyout
A leveraged buyout is where an investor group acquires a business using mainly borrowed money.

Libor and the OIS
These are two of the most important interest rates in the world. Libor is the London Interbank offered rate. The overnight index swap (OIS) is a broadly comparable rate in the US.

Like-for-like sales
One way of making meaningful year-on-year comparisons, especially with retail stocks, is by looking at 'like-for-like' sales growth.

Limited company
A limited company is one in which the liability of the shareholders is limited to what they have put in to the company.

Liquidity
Liquidity refers to how easy it is to buy or sell an investment.

Lloyd's
Lloyd's of London is an international insurance market, which controls and regulates the activities of the groups offering insurance services

Loan-to-value ratio
The loan-to-value (LTV) ratio is one of the main risk assessment measures used by lenders to assess a person's suitability for a mortgage.

Low volatility
Low volatility – or "low vol" – investing means buying shares (or bonds) that tend to go up or down in price by less than the overall market (in other words, they're less volatile).

M&A arbitrage
M&A arbitrage is a way to profit from one company taking over another, or two firms deciding to merge.

Margin
When buying a derivative like a spread bet, an investor will only have to pay a small initial deposit, or 'margin', of say 10% of the value of the shares.

Margin account
A margin account is one that an investor holds with a broker, effectively allowing him to buy securities on credit.

Margin of safety
The margin of safety itself is the gap between the price you pay and what you think a stock might be worth.

Margin trading
Margin trading is when, typically US, investors put up only a percentage of the cost of an asset they buy.

Mark to model
In normal circumstances, securities such as shares or bonds are valued by using market prices: this valuation method is called 'mark to market'.

Market makers
Market makers are typically banks and brokers who commit to trade shares and bonds, often in larger quantities than most other investors.

Market neutral funds
Market neutral funds aim to deliver above market rates of return with lower risk by hedging bullish stock picks (buys) with an equivalent number of short bets (sells).

Marking to market
This is the process of updating a portfolio to reflect the latest available prices.

Maturity transformation
Maturity transformation is when banks take short-term sources of finance, such as deposits from savers, and turn them into long-term borrowings, such as mortgages.

Mean reversion
Mean reversion is the tendency for a number – say, the price of a house or a share – to return to its long-term average value after a period above or below it.

Mezzanine finance
Mezzanine refers to a layer that falls between two others. In the case of finance, it comes between debt and equity.

Minority interest
This is an accounting term for the amount of a balance sheet not owned by a firm's shareholders.

Misery index
The misery index is constructed by adding the unemployment rate to the inflation rate.

Monetary policy
Monetary policy is about exercising control over the money supply (the amount of money circulating in the economy) with the aim of influencing the economy.

Money laundering
Money laundering is a catch-all term for any activity that tries to convert the proceeds of crime into legitimate money.

Money markets
'Money markets' is a generic term covering the vast market for short-term cash loans and deposits.

Money multiplier
This is one of the key principles underpinning the entire banking system. That's because it's the basis of 'credit creation'.

Money supply
Money supply is simply the amount of money available in the economy.

Monoline
A monoline is any business that specialises in one particular financial services area, which could in theory be anything from mortgages to car insurance.

Moving average
A moving average of a share price is simply the average of the share prices of the last so many days.

Market cap weighting
If an index is weighted by market cap (market capitalisation – the number of shares outstanding multiplied by the share price), it means the companies in the index are ranked by stockmarket value.

Multiple compression
Multiple compression is when a company's price/earnings multiple falls as investors become wary of a company's growth prospects. The share price may be static or falling, despite increasing earnings.

Naked option writing
There are two parties to an option contract – the buyer (holder) and the seller (writer). If you are an option writer, you can be covered or naked.

Naked shorting
A 'naked' short involves shorting shares that are not available to borrow.

Nation's current account
A nation's current account measures the flows of actual goods and services in and out of the country

NAV
The net asset value (NAV) of a firm is the amount of money that would be left if it closed, sold its assets and paid its debts.

Net working capital
Net working capital measures a firm's ability to pay its way, or its liquidity. Subtract its current liabilities from its current assets.

Nikkei 225
The Nikkei 225 is Japan's major stock market index.

Nil-paid rights
Nil-paid rights arise when a firm sells new shares for cash to existing shareholders via a rights issue.

Nominee account
Usually, a broker records shares bought on behalf of clients using a general 'nominee' account on the register with a name chosen by the broker.

OCF (ongoing charges figure)
Fund managers publish their ongoing charges figure (OCF) – previously known as the total expense ratio (TER) – to give an indication of the cost of investing in their funds.

Option
An option is simply the right to buy (a 'call' option) or sell (a 'put' option) a quantity of any asset by an agreed expiry date for a fixed ('strike') price.

Non-domicile
Non-domicile status is given to people who were either not born here or whose parents spent most of their lives in another country.

Off Exchange (OFEX)
The Off Exchange (OFEX) was started as a way for shareholders to deal in the shares of small companies that do not meet the requirements of Aim and the LSE's official list.

Off-balance-sheet finance
This technique allows a borrower to legally raise finance (so improving its cash position) without showing any associated liability on the balance sheet.

Open & closed end funds
An investment or 'closed end' trust is a public company whose business is to invest in other companies.

Open-ended investment company (OEIC)
An open-ended investment company, or OEIC (pronounced 'oik'), is a modern and more flexible version of a unit trust.

Operating leverage
High operating leverage (also known as operating gearing) means that fixed costs (predominantly property and staff) are a high proportion of total costs in the profit and loss account.

Opportunity cost
The opportunity cost of an investment is the return you could have got if you'd put your money elsewhere.

Optionality
An option gives the right to buy ('call') or sell ('put') shares at a fixed 'strike' price, but only before an agreed date when the option expires.

Out of the money
If an option is 'out of the money' it is usually not worth exercising given the current market price of the underlying asset.

Output gap
The output gap is the difference between an economy's actual output, otherwise known as gross domestic product (GDP), and what it would be if that country's industries were working flat out.

Over the counter (OTC)
Many transactions are done privately between counter parties and with no exchange involved.These are known as over the counter, or OTC.

Overweight and underweight
The terms overweight and underweight are used by brokers and fund managers to indicate their preference for stocks or markets relative to particular indices or benchmarks.

Pairs trade
Pairs traders aim to profit from the change in the price of, say, one share relative to another.

Payback period
The payback period measures how long a project or investment takes to repay any initial outlay.

Placing
Placing is where selected institutions are phoned by a firm's advising investment bank and offered blocks of shares.

Ponzi scheme
Ponzi schemes are a type of illegal 'rob Peter to pay Paul' operation named after Charles Ponzi who took deposits from 40,000 US investors on the promise of fabulous returns

Pound cost averaging
Pound cost averaging is when you drip feed money into shares or units on a regular basis rather than committing a single larger lump sum.

Preference share
Preference or preferred shares are shares in a company that have a fixed rather than a variable dividend.

Price elasticity
In general, the higher the price of a product the lower the demand for it. The extent to which this is true for each product is referred to as price elasticity.

Price to book ratio
Price-to-book value ratio (p/bv) is is calculated by dividing the current share price by its book value per share.

Price to cash flow ratio
The price to cash flow ratio (PCF) is a measure of the market's expectation of a firm's future health.

Price to earnings growth (PEG) ratio
This key ratio compares the price to earnings ratio to a firm's earnings growth rate to see whether a share is cheap or expensive.

Price to sales ratio
A company's market cap divided by the company's annual sales (or revenue) gives us the price to sales ratio

Prime broker
Prime brokers are typically investment banks which are able to sell clients, often hedge funds, a 'one-stop shop' service.

Private finance initiative (PFI) / public-private partnership (PPP)
The private finance initiative (PFI) is a way of getting private sector involved in financing public sector projects like schools, hospitals and prisons.

Prop trading
Proprietary ('prop') trading involves banks risking their own capital to make money.

Public sector net cash requirement (PSNCR)
Government spending usually exceeds its income, and the difference is known as a 'public sector net cash requirement' (PSNCR).

Purchasing power parity
Purchasing power parity (PPP) is a theory that tries to work out how over- or undervalued one currency is in relation to another.

Put option
A put option gives someone the right to sell something (often shares, but they can be used in connection with other financial assets) for an agreed price on or before a certain date.

Puts and calls
A 'put' give you the right to sell a share at a pre-determined price, a 'call' gives you the right to buy them.

Quantitative easing (QE)
Quantitative easing (QE) involves electronically expanding a central bank's balance sheet.

Real and nominal
In a monetary context, 'real' and 'nominal' are used to describe whether or not a price has been adjusted for inflation.

Real interest rate
A "real" interest rate accounts for the impact of inflation on a given rate of interest, and therefore reflects the real cost of funds.

Recession
The most common definition of a recession is a fall in real (inflation-adjusted) gross domestic product for two or more quarters in a row.

Redemption yield
When investors buy different securities, they want to be able to compare expected annual returns. For bonds this is the 'redemption yield' or 'yield to maturity'.

Resistance points
Shares can often trade in channels, rarely breaking below or above consistent minimum and maximum prices. Those are a stock's resistance points.

Return on capital
Return on capital is one of the most useful ratios when it comes to measuring the performance of a company. It measures how well a business can turn capital into profits.

Return on capital employed (ROCE)
This key ratio measures the profitability of a firm taking account of the amount of money it deploys.

Return on equity
Return on equity measures a year's worth of earnings against shareholders' equity (the difference between a group's assets and its liabilities).

Return on invested capital (ROIC)
This is a ratio that can be used to assess how effectively a company squeezes profits from the assets it controls and owns.

Rights issue
A rights issue gives investors who already hold shares in a company the right to buy additional shares in a fixed proportion to their existing holding.

Risk premium
The risk premium is the difference between the highest risk-free return available and the rate of return investors expect from another asset over the same period

S&P 500 index
America's S&P 500 index is among the Western world's most cyclical indices, which tracks the performance of 500 of the largest companies listed on US stock exchanges.

Sale and leaseback
A sale and leaseback arrangement can be a useful way for a company to generate cash from its property portfolio without having to vacate.

Secular trend
A secular trend is a long-term phenomenon, whereas a cyclical trend is short-term and will eventually reverse.

Securitisation
A mortgage is secured on the borrower's home, which can be seized later and sold should things go wrong. By extension, the mortgage itself can be securitised.

Segregated fund
A segregated fund is a managed pot of assets belonging to just one client, managed alongside – but separately from – other investments under a manager's control.

Share options
Share options give you the right to buy (or to sell) shares in a given company at a previously set price regardless of the current market price.

Short squeeze
When a large number of short sellers target the same stock, the price can rise in a self-perpetuating circle known as a 'short squeeze'.

Short sterling future
The 'short term interest rate future' (or STIR) is also known as the 'short sterling' future. In essence, it facilitates bets on where interest rates will be.

Shorting
If a trader believes that the price of an asset will not rise but fall, he can still make money on it by 'shorting' it.

SIV (structured investment vehicle)
Structured investment vehicles (or SIVs) are typically created by investment banks and can be a way to raise capital without having to record an associated obligation to repay it.

Smart beta
Smart beta funds aim to combine the best aspects of passive and active management, aiming to beat the index by eliminating any element of discretionary human judgement.

Sovereign wealth fund
A sovereign wealth fund is a state-owned fund of the accumulated reserves that arise from running a trade surplus with other countries.

Social Trading
Social Trading is the sharing of trading news and ideas over a social network to empower all traders. By extension it can facilitate copy trading and mirror trading.

Special drawing rights
A special drawing right allows a member country of the IMF to obtain surplus currency held by another member country.

Spread
A spread is simply a gap, or difference; so the 'spread' between two and five is three. The 'spread' between buy and sell prices is often how brokers derive their profit

Spread betting
Spread betting is a straightforward and tax-efficient way of betting on the direction of financial markets without taking any ownership of the underlying asset.

Stagflation
Stagflation is a nasty mix of rising prices (based on high demand, production capacity constraints, or both) and falling growth.

Stamp duty
Stamp duty is a re-registration tax. That means you pay it whenever you buy (but not sell) a registered asset.

Stock overhang
Stock overhang is a phrase used to describe a sizeable block of shares which, if it were to be released in the market in one go, would flood it, and so depress prices.

Stock splitting
A stock split increases the number of a corporation's issued shares by dividing each existing share.

Stop-loss
A stop-loss is an instruction given to a broker to by or sell a stock to limit losses if it moves beyond a certain level.

Subordinated debt
Holders of subordinated debt rank below most other bondholders when it comes to paying them back if the company goes backrupt.

Synthetics
A synthetic is a combination of financial instruments – often two, sometimes more – designed to mimic another single security.

Taiex
The TAIEX is Taiwan's benchmark index, with technology companies accounting for just over a third of the market. Semiconductors are the main subsector.

Tangible common equity
Tangible common equity is a measure used to gauge how big a hit a bank can take before its shareholders' equity is wiped out.

Tangible book value per share
Book value (also known as equity, shareholders' funds, or net asset value) is the value of all a company's assets, minus its liabilities.

Technical analysis
Technical analysts or 'chartists' attempt to predict future share price (or index) movements by looking at past movements.

Tier-one capital
Banks' capital can be split into tiers. Tier one represents capital of the highest quality, consisting of shareholders' equity and reserves.

Time value of money
Money has a time value. If you are owed £10, you would rather it was paid back now than in, say, one year.

Total expense ratio
The total expense ratio (TER), also known as the 'expense ratio' is a way to capture the annual costs associated with running a fund such as a unit trust.

Tracking error
Tracking error is defined as the standard deviation of the difference between the fund's returns and the returns on the index.

Trade surplus
When a country's exports exceed its imports, it is said to have a positive balance of trade, or trade surplus.

Trailing stop-loss
A conventional stop-loss will ensure you get out of the market at a fixed price above or below your initial trading price. A trailing stop allows you to keep more of your profits.

Treasuries
A government bond is an IOU issued by the central bank, which it guarantees to repay at a given date. In the US, these are referred to as Treasuries.

Treasury stock
Treasury stock are shares that have been issued by a firm, but are being kept 'in treasury' – ie they are being kept for possible subsequent reissue.

True and fair value
There is quite a lot of misunderstanding about what auditors mean when they sign off accounts as "true and fair".

Utilities
Utilities are companies involved in providing electricity, gas, water and similar services to consumers and businesses.

Underwriting
A common way to guarantee a minimum level of proceeds when a public company issues new shares is for the issuing firm to involve an underwriter.

Value at risk (VAR)
VAR attempts to assess the odds of losing money on a portfolio of, say, shares, within a given timeframe.

Velocity of money
The health of an economy can be measured by capturing the speed at which the money available in it (the money supply) is being spent.

Vendor finance
Vendor finance is a creative way for a firm to fight falling sales. If a customer cannot afford to pay up front, it borrows the funds from the manufacturer.

Vertical integration
Vertical integration is when two businesses at different stages of production join to form one bigger company.

Vix (volatility index)
The Chicago Board Options Exchange (CBOE) Volatility index (Vix for short) reflects how volatile traders expect the market to be over the coming year.

Volatility
Volatility refers to the fluctuations in the price of a security, commodity, currency, or index.

WACC
WACC stands for the weighted average cost of capital. It represents the rate of return a company must make on the money it has invested to stop investors putting their money elsewhere.

Warrants
Warrants are a type of security issued by companies and traded in the market, much in the way that shares are.

Wholesale money markets
The term 'money market' covers the vast network of deals involving the lending and borrowing of cash in a range of currencies. 'Wholesale' means funds borrowed or lent in large quantities.

Withholding tax
A withholding tax requires a person or company making a payment to someone else to withhold part of the payment and pay it to the government.

Working capital
Also known as 'net current assets', working capital is the total of a firm's current, or short term, balance sheet assets minus all current liabilities.

Yield curve
A yield curve shows the relationship between the yield on securities and their maturities (how long it is until they can be redeemed at their face value).

Yield on cost
The yield on cost tells you a company's dividend return as a percentage of the price that you paid for the shares.

Yield spread
Bonds that are not government securities are evaluated by the market on the basis of the difference between their yield and the yield of a comparable government bond. That difference is called a spread

Z score
The Z score indicates the probability of a company entering bankruptcy within the next two years.

Zero
A zero is a type of share or bond. Its key feature is that it pays no annual dividend, or coupon.