

Terms to Know

by Lauren Glasse and Max Le Merle

(Spring 2015)

Alpha - The difference between a fund's expected returns based on its beta and its actual returns. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%.

Beta - A measure of the volatility of a security or portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. You can think of beta as the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market.

Blue-Chip Stock - Stock of a large, well-established, and financially sound company that has operated for many years. Typically has a market capitalization in the billions, and is generally the market leader or among the top three in its sector. Most blue-chips have a record of paying stable or rising dividends for years, if not decades. Think of companies household name companies.

Bearish - Characterized by falling share prices. An investor who thinks a stock price will decline would be considered bearish.

Bullish - Characterized by rising share prices. An investor who thinks the a specific security, an industry, or the whole market will rise would be considered bullish. A "bull" approach would be to purchase securities under the assumption that they can be sold later at a higher price.

***Max's way to remember the difference- Bull attacks upwards (knocks up with horns), whereas bear attacks downwards (swipes down with paws). Bullish people think market will go up, bearish think market will go down.*

Bonds - A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.

Catalyst - Something that gives institutional investors reason to buy or sell a stock. Examples: product release or recall, bad publicity, earnings releases, management changes, etc.

Cash Flows - The amount of cash generated and used by a company in a given period

CAPEX - Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. Often used to undertake new projects or maintain/increase the scope of their operations.

Dividend Yield - A ratio that shows how much a company pays out in dividends each year relative to its share price.

EPS (Earnings Per Share) - portion of a company's profit allocated to each outstanding share of common stock. Serves as an indicator of a company's profitability.

Hedging - <http://www.investinganswers.com/financial-dictionary/investing/hedge-345>

Market Cap - Market value of a company's outstanding shares. Better measure of the size of a company than worth.

Price/Earnings Ratio (P/E) - Company's current share price compared to its per-share earnings.

Profit Margins - Ratio of a profitability that measures how much out of every dollar of sales a company actually keeps in earnings. Higher profit margin indicates a more profitable company with better control over costs.

Volume - Number of shares/contracts traded in a security or an entire market during a given period of time.

52 Week Range - Lowest and highest prices at which a stock has traded in the past 52 weeks. Used to compare against a stock's current trading price to get a sense of how the stock is doing + how its price has fluctuated.