

StockCentral Ratio Analyzer User Guide

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1. Introduction to the StockCentral Ratio Analyzer

The Ratio Analyzer began as a spreadsheet tool for analyzing Annual Report data. It has graduated to an on-line tool, negating the requirement for a spreadsheet program and simplifying its use.

To determine the important data and how to judge the results of an analysis, various books, authored by Peter Lynch, Warren Buffett, Benjamin Graham, and others were researched. "What does the author look for when studying the Annual Report" was the question in mind while doing the research.

While this tool suggests when data are good or bad--through color coded boxes and appropriate verbiage--it is important to study other information contained in the Annual Report as well. Always read the President/CEO letter and the MD&A report (Management's Discussion & Analysis). It's good to scan the Audit's Statement, looking for non-normal language. The "Performance Chart", comparing the company with peers and market averages, is worth searching out. It will be found in various locations in the Annual Report, and in Section 5 of the 10-K. "A picture is worth a thousand words" is an apt description of this chart. These suggestions are the starting point. Spending more time looking at the Notes and other sections is well worth the effort. All of this data is available for free in the form of 10-K (annual) and 10-Q (quarterly) reports that any publicly traded company on a US exchange must file with the SEC. You can get this data for free from the SEC's EDGAR website: <http://www.sec.gov/edgar.shtml>.

The Ratio Analyzer is primarily designed to analyze companies in manufacturing and retail industries. If used with other industries, some indicators, where data is missing, will need to be ignored. Once a company is owned, print the report each year and compare the current year to prior years. An analysis covering several years reveals the long-term trend and the most information.

Any successful business owner is constantly evaluating the performance of his or her company, comparing it with the company's historical figures, with its industry competitors, and even with successful businesses from other industries. To complete a thorough examination of a company's effectiveness, however, one needs to look at more than just easily attainable numbers like sales, profits, and total assets. You must be able to read between the lines of financial statements and make the seemingly inconsequential numbers accessible and comprehensible.

Analysts interpret the numbers on financial statements using a variety of ratios and other comparative measures. Such analysis covers:

- Statement of financial position (aka Balance Sheet);
- Statement of earnings; and
- Statement of cash flows

This massive data overload could seem staggering. Luckily, there are many well-tested ratios out there that make the task a bit less daunting. Comparative **ratio analysis** helps you identify and quantify a company's strengths and weaknesses, evaluate its financial position, and understand any risks you may be taking by investing in it.

As with any other form of analysis, comparative ratio techniques aren't definitive and their results shouldn't be viewed as gospel. Many off-the-balance-sheet factors can play a role in the success or failure of a company. But, when used in concert with various other business evaluation processes such as the StockCentral Screener and Take Stock Online™, comparative ratios can be invaluable.

After you have read through our guide to Ratio Analysis at Stockcentral.com, you may want to expand upon your knowledge of financial ratios and their usage at one of these additional online resources:

<http://www.investopedia.com/terms/b/balancesheet.asp>

<http://www.fool.com/School/Valuation/HowToReadABalanceSheet.htm>

<http://www.sec.gov/investor/pubs/begfinstmtguide.htm>

<http://www.ibm.com/annualreport/2006/guide.shtml>

2. Beginners' Guide to Financial Statements

The Basics

If you can read a nutrition label or a baseball box score, you can learn to read basic financial statements. If you can follow a recipe or apply for a loan, you can learn basic accounting. The basics aren't difficult and they aren't rocket science.

This guide is designed to help you gain a basic understanding of how to read financial statements. Just as a CPR class teaches you how to perform the basics of cardiac pulmonary resuscitation, this guide will explain how to read the basic parts of a financial statement. It will not train you to be an accountant (just as a CPR course will not make you a cardiac doctor), but it should give you the confidence to be able to look at a set of financial statements and make sense of them.

Let's begin by looking at what financial statements do.

“Show me the money!”

We all remember Cuba Gooding Jr.'s immortal line from the movie *Jerry Maguire*, “Show me the money!” Well, that's what financial statements do. They show you the money. They show you where a company's money came from, where it went, and where it is now.

There are four main financial statements. They are: (1) balance sheets; (2) income statements; (3) cash flow statements; and (4) statements of shareholders' equity. Balance sheets show what a company owns and what it owes at a fixed point in time. Income statements show how much money a company made and spent over a period of time. Cash flow statements show the exchange of money between a company and the outside world also over a period of time. The fourth financial statement, called a "statement of shareholders' equity," shows changes in the interests of the company's shareholders over time.

Let's look at each of the first three financial statements in more detail.

Balance Sheets

A balance sheet provides detailed information about a company's assets, liabilities and shareholders' equity.

Assets are things that a company owns that have value. This typically means they can either be sold or used by the company to make products or provide services that can be sold. Assets include physical property, such as plants, trucks, equipment and inventory. It also includes things that can't be touched but nevertheless exist and have value, such as trademarks and patents. And cash itself is an asset. So are investments a company makes.

Liabilities are amounts of money that a company owes to others. This can include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future.

Shareholders' equity is sometimes called capital or net worth. It's the money that would be left if a company sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners, of the company.

The following formula summarizes what a balance sheet shows:

$$\text{ASSETS} = \text{LIABILITIES} + \text{SHAREHOLDERS' EQUITY}$$

A company's assets have to equal, or "balance," the sum of its liabilities and shareholders' equity.

A company's balance sheet is set up like the basic accounting equation shown above. On the left side of the balance sheet, companies list their assets. On the right side, they list their liabilities and shareholders' equity. Sometimes balance sheets show assets at the top, followed by liabilities, with shareholders' equity at the bottom.

Assets are generally listed based on how quickly they will be converted into cash. Current assets are things a company expects to convert to cash within one year. A good example is inventory. Most companies expect to sell their inventory for cash within one year. Noncurrent assets are things a company does not expect to convert to cash within one year or that would take longer than one year to sell. Noncurrent assets include fixed assets. Fixed assets are those assets used to operate the business but that are not available for sale, such as trucks, office furniture and other property.

Liabilities are generally listed based on their due dates. Liabilities are said to be either current or long-term. Current liabilities are obligations a company expects to pay off within the year. Long-term liabilities are obligations due more than one year away.

Shareholders' equity is the amount owners invested in the company's stock plus or minus the company's earnings or losses since inception. Sometimes companies distribute earnings, instead of retaining them. These distributions are called dividends.

A balance sheet shows a snapshot of a company's assets, liabilities and shareholders' equity at the end of the reporting period. It does not show the flows into and out of the accounts during the period.

Income Statements

An income statement is a report that shows how much revenue a company earned over a specific time period (usually for a year or some portion of a year). An income statement also shows the costs and expenses associated with earning that revenue. The literal "bottom line" of the statement usually shows the company's net earnings or losses. This tells you how much the company earned or lost over the period.

Income statements also report earnings per share (or "EPS"). This calculation tells you how much money shareholders would receive if the company decided to distribute all of the net earnings for the period. (Companies almost never distribute all of their earnings. Usually they reinvest them in the business.)

To understand how income statements are set up, think of them as a set of stairs. You start at the top with the total amount of sales made during the accounting period. Then you go down, one step at a time. At each step, you make a deduction for certain costs or other operating expenses associated with earning the revenue. At the bottom of the stairs, after deducting all of the expenses, you learn how much the company actually earned or lost during the accounting period. People often call this "the bottom line."

At the top of the income statement is the total amount of money brought in from sales of products or services. This top line is often referred to as gross revenues or

sales. It's called "gross" because expenses have not been deducted from it yet. So the number is "gross" or unrefined.

The next line is money the company doesn't expect to collect on certain sales. This could be due, for example, to sales discounts or merchandise returns.

When you subtract the returns and allowances from the gross revenues, you arrive at the company's net revenues. It's called "net" because, if you can imagine a net, these revenues are left in the net after the deductions for returns and allowances have come out.

Moving down the stairs from the net revenue line, there are several lines that represent various kinds of operating expenses. Although these lines can be reported in various orders, the next line after net revenues typically shows the costs of the sales. This number tells you the amount of money the company spent to produce the goods or services it sold during the accounting period.

The next line subtracts the costs of sales from the net revenues to arrive at a subtotal called "gross profit" or sometimes "gross margin." It's considered "gross" because there are certain expenses that haven't been deducted from it yet.

The next section deals with operating expenses. These are expenses that go toward supporting a company's operations for a given period - for example, salaries of administrative personnel and costs of researching new products. Marketing expenses are another example. Operating expenses are different from "costs of sales," which were deducted above, because operating expenses cannot be linked directly to the production of the products or services being sold.

Depreciation is also deducted from gross profit. Depreciation takes into account the wear and tear on some assets, such as machinery, tools and furniture, which are used over the long term. Companies spread the cost of these assets over the periods they are used. This process of spreading these costs is called depreciation or amortization. The "charge" for using these assets during the period is a fraction of the original cost of the assets.

After all operating expenses are deducted from gross profit, you arrive at operating profit before interest and income tax expenses. This is often called "income from operations."

Next companies must account for interest income and interest expense. Interest income is the money companies make from keeping their cash in interest-bearing savings accounts, money market funds and the like. On the other hand, interest expense is the money companies paid in interest for money they borrow. Some income statements show interest income and interest expense separately. Some income statements combine the two numbers. The interest income and expense are

then added or subtracted from the operating profits to arrive at operating profit before income tax.

Finally, income tax is deducted and you arrive at the bottom line: net profit or net losses. (Net profit is also called net income or net earnings.) This tells you how much the company actually earned or lost during the accounting period. Did the company make a profit or did it lose money?

Earnings Per Share or EPS

Most income statements include a calculation of earnings per share or EPS. This calculation tells you how much money shareholders would receive for each share of stock they own if the company distributed all of its net income for the period.

To calculate EPS, you take the total net income and divide it by the number of outstanding shares of the company.

Cash Flow Statements

Cash flow statements report a company's inflows and outflows of cash. This is important because a company needs to have enough cash on hand to pay its expenses and purchase assets. While an income statement can tell you whether a company made a profit, a cash flow statement can tell you whether the company generated cash.

A cash flow statement shows changes over time rather than absolute dollar amounts at a point in time. It uses and reorders the information from a company's balance sheet and income statement.

The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Generally, cash flow statements are divided into three main parts. Each part reviews the cash flow from one of three types of activities: (1) operating activities; (2) investing activities; and (3) financing activities.

Operating Activities

The first part of a cash flow statement analyzes a company's cash flow from net income or losses. For most companies, this section of the cash flow statement reconciles the net income (as shown on the income statement) to the actual cash the company received from or used in its operating activities. To do this, it adjusts net income for any non-cash items (such as adding back depreciation expenses) and adjusts for any cash that was used or provided by other operating assets and liabilities.

Investing Activities

The second part of a cash flow statement shows the cash flow from all investing activities, which generally include purchases or sales of long-term assets, such as property, plant and equipment, as well as investment securities. If a company buys a piece of machinery, the cash flow statement would reflect this activity as a cash outflow from investing activities because it used cash. If the company decided to sell off some investments from an investment portfolio, the proceeds from the sales would show up as a cash inflow from investing activities because it provided cash.

Financing Activities

The third part of a cash flow statement shows the cash flow from all financing activities. Typical sources of cash flow include cash raised by selling stocks and bonds or borrowing from banks. Likewise, paying back a bank loan would show up as a use of cash flow.

Read the Footnotes

A horse called “Read The Footnotes” ran in the 2004 Kentucky Derby. He finished seventh, but if he had won, it would have been a victory for financial literacy proponents everywhere. It’s so important to *read the footnotes*. The footnotes to financial statements are packed with information. Here are some of the highlights:

- Significant accounting policies and practices - Companies are required to disclose the accounting policies that are most important to the portrayal of the company’s financial condition and results. These often require management’s most difficult, subjective or complex judgments.
- Income taxes - The footnotes provide detailed information about the company’s current and deferred income taxes. The information is broken down by level - federal, state, local and/or foreign, and the main items that affect the company’s effective tax rate are described.
- Pension plans and other retirement programs - The footnotes discuss the company’s pension plans and other retirement or post-employment benefit programs. The notes contain specific information about the assets and costs of these programs, and indicate whether and by how much the plans are over- or under-funded.
- Stock options - The notes also contain information about stock options granted to officers and employees, including the method of accounting for stock-based compensation and the effect of the method on reported results.

Read the MD&A

You can find a narrative explanation of a company's financial performance in a section of the quarterly or annual report entitled, "Management's Discussion and Analysis of Financial Condition and Results of Operations." MD&A is *management's* opportunity to provide investors with its view of the financial performance and condition of the company. It's management's opportunity to tell investors what the financial statements show and do not show, as well as important trends and risks that have shaped the past or are reasonably likely to shape the company's future.

The SEC's rules governing MD&A require disclosure about trends, events or uncertainties known to management that would have a material impact on reported financial information. The purpose of MD&A is to provide investors with information that the company's management believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations. It is intended to help investors to see the company through the eyes of management. It is also intended to provide context for the financial statements and information about the company's earnings and cash flows.

Financial Statement Ratios and Calculations

You've probably heard people banter around phrases like "P/E ratio," "current ratio" and "operating margin." But what do these terms mean and why don't they show up on financial statements? Listed below are just some of the many ratios that investors calculate from information on financial statements and then use to evaluate a company. As a general rule, desirable ratios vary by industry.

- *Debt-to-equity ratio* compares a company's total debt to shareholders' equity. Both of these numbers can be found on a company's balance sheet. To calculate debt-to-equity ratio, you divide a company's total liabilities by its shareholder equity, or

Debt-to-Equity Ratio = Total Liabilities / Shareholders' Equity

If a company has a debt-to-equity ratio of 2 to 1, it means that the company has two dollars of debt to every one dollar shareholders invest in the company. In other words, the company is taking on debt at twice the rate that its owners are investing in the company.

- *Inventory turnover ratio* compares a company's cost of sales on its income statement with its average inventory balance for the period. To calculate the average inventory balance for the period, look at the inventory numbers listed on the balance sheet. Take the balance listed for the period of the report and add it to the balance listed for the previous comparable period, and then divide by two. (Remember that balance sheets are snapshots in time. So the inventory balance for the previous period is the beginning balance for the

current period, and the inventory balance for the current period is the ending balance.) To calculate the inventory turnover ratio, you divide a company's cost of sales (just below the net revenues on the income statement) by the average inventory for the period, or

$$\text{Inventory Turnover Ratio} = \text{Cost of Sales} / \text{Average Inventory for the Period}$$

If a company has an inventory turnover ratio of 2 to 1, it means that the company's inventory turned over twice in the reporting period.

- *Operating margin* compares a company's operating income to net revenues. Both of these numbers can be found on a company's income statement. To calculate operating margin, you divide a company's income from operations (before interest and income tax expenses) by its net revenues, or

$$\text{Operating Margin} = \text{Income from Operations} / \text{Net Revenues}$$

Operating margin is usually expressed as a percentage. It shows, for each dollar of sales, what percentage was profit.

- *P/E ratio* compares a company's common stock price with its earnings per share. To calculate a company's P/E ratio, you divide a company's stock price by its earnings per share, or

$$\text{P/E Ratio} = \text{Price per share} / \text{Earnings per share}$$

If a company's stock is selling at \$20 per share and the company is earning \$2 per share, then the company's P/E Ratio is 10 to 1. The company's stock is selling at 10 times its earnings.

- *Working capital* is the money leftover if a company paid its current liabilities (that is, its debts due within one-year of the date of the balance sheet) from its current assets.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Bringing It All Together

Although this guide discusses each financial statement separately, keep in mind that they are all related. The changes in assets and liabilities that you see on the balance sheet are also reflected in the revenues and expenses that you see on the income statement, which result in the company's gains or losses. Cash flows provide more information about cash assets listed on a balance sheet and are related, but not equivalent, to net income shown on the income statement. And so on. No one financial statement tells the complete story. But combined, they provide very

powerful information for investors. And information is the investor's best tool when it comes to investing wisely.

3. Purposes of Analyzing Financial Ratios

Ratios are highly important profit tools in financial analysis that help financial analysts implement plans that improve profitability, liquidity, financial structure, reordering, leverage, and interest coverage. Although ratios report mostly on past performances, they can be predictive too, and provide lead indications of potential problem areas.

Ratio analysis is primarily used to compare a company's financial figures over a period of time, a method sometimes called trend analysis. Through trend analysis, you can identify trends, good and bad, and adjust your investment methods accordingly. You can also see how the ratios stack up against other businesses, both in and out of the same industry.

3a. Liquidity Ratios

A class of financial metrics that is used to determine a company's ability to pay off its short-term debt obligations. Generally, the higher the value of the liquidity ratio(s), the larger the margin of safety that the company possesses to cover short-term debts. A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern.

Short-term creditors prefer a high current ratio since it reduces their risk. Shareholders may prefer a lower current ratio so that more of the firm's assets are working to grow the business. Typical values for the current ratio vary by firm and industry. For example, firms in cyclical industries may maintain a higher current ratio in order to remain solvent during downturns.

Working Capital Ratio (a.k.a Current Ratio):

This ratio compares the value of what a company owns (Assets) with the value of what it owes (Liabilities). It's generally a good idea to own more than you owe! It is a test to determine if the company has enough Assets over Liabilities to continue their business without needing to borrow. Examples of typical company Assets include: Cash; Investments; Accounts Receivable (money the company is owed but hasn't collected yet); Inventory; Buildings; Equipment. Examples of typical company Liabilities include: Accounts Payable (bills the company hasn't paid yet); Accrued Expenses (e.g., payroll and payroll taxes), Income Taxes owed; Debt. About 2:1 is normal for manufacturers; 1:1 is normal for utilities.

$$\text{Working Capital Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Quick Ratio:

Also known as the "acid test," this ratio specifies whether your current assets that could be quickly converted into cash are sufficient to cover current liabilities. A firm that had additional sufficient quick assets available to creditors was believed to be in sound financial condition. About 1:1 is normal; higher is better. Anything better than 1 is considered acceptable. This is a relatively severe test of a company's liquidity and its ability to meet short-term obligations.

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

Long-term Debt:

A small change isn't considered a serious negative. If increasing, why? Is the ROE much higher than the interest rate the company has to pay on borrowed money? If a company can borrow at a rate a few percentage points below the ROE, and debt isn't excessive, debt isn't necessarily bad. Using other people's money to make more money is good management.

LT Debt to Equity Ratio:

Normal Long-term Debt to Equity Ratio is less than 25% debt. Short-term debt is ignored. There is normally enough cash available to pay the short-term debt. Ratios are more meaningful if compared to other companies in the same industry.

$$\text{Longterm Debt to Equity Ratio} = \frac{\text{Long term Debt}}{\text{Total Equity}}$$

Total Interest Coverage:

How many times does Pretax Profit exceed the interest paid on LT debt? If less than 3, turn the page (find another company). If less than 5 investigate -- Is the ROE greater than the interest rate at which the company can borrow money? If the company's pretax profit only exceeds the payment on interest by only 2-3 times and there is a downturn in the market, the company may collapse. Any number below 5 is worrisome. A number below 3 is very worrisome.

3b. Efficiency Ratios

Efficiency ratios measure the quality of a business' receivables and how efficiently it uses and controls its assets, how effectively the firm is paying suppliers, and whether the business is overtrading or undertrading on its equity (using borrowed funds).

Accounts Receivable Annual Change:

On a company's balance sheet, accounts receivable is the amount that customers owe a business. Sometimes called trade receivables, they are classified as current assets. If AR is rising, customers aren't paying their bills and you should investigate. Is the industry suffering the same type of increase?

Days waiting for payment this year/last year:

How quickly are customers paying for goods received? Below If a high number, there may be something wrong with the product. Above 60, investigate, below 60 is good, below 45 is superb.

Sales to Inventories Ratio

Sales growing faster than inventories is good, inventories growing faster than sales is not good.

$$\text{Sales to Inventories Ratio} = \frac{\text{Annual Sales Change}}{\text{Annual Inventories Change}}$$

Inventories Annual Change:

Decreasing is good. If increasing, is the increase related to a company product, or is there a slowdown in the industry?

Inventory Turnover Days this year:

This represents the time products sit on the shelf waiting to be sold. The best comparison is with other companies in the same industry.

Sales to Accounts Receivable Ratio:

This ratio measures the number of times that receivables turn over during the year. The higher the turnover of receivables, the shorter the time between sale and cash collection. If a company's Turnover Rate is significantly lower than industry norms, the underlying reason (poor collection methods, high risk customers, low sales) needs to be pinpointed.

$$\text{Sales to Accounts to Accounts Receivable Ratio} = \frac{\text{Sales}}{\text{Accounts Receivable}}$$

3c. Cash Flow Ratios

The cash flow statement is one of the four main financial statements of a company. The cash flow statement can be examined to determine the short-term sustainability of a company. If cash is increasing (and operational cash flow is positive), then a company will often be deemed to be healthy in the short-term. Increasing or stable cash balances suggest that a company is able to meet its cash needs, and remain

solvent. This information cannot always be seen in the income statement or the balance sheet of a company. For instance, a company may be generating profit, but still have difficulty in remaining solvent.

Cash Flow Growth Annual Change:

Cashflow should increase at the same rate as Sales - or greater.

$$\text{Cash Flow Growth Annual Change} = 1 - \frac{\text{Current Yr Cash from Operations}}{\text{Prior Year Cash from Operations}}$$

Free Cash Flow Margin:

Free Cashflow is what's left over after all capital spending has been deducted. A margin of 10 represents a reasonable return on your investment. If less than 10, what are they doing with their cash, and is that a reasonable use of cash?

$$\text{Free Cash Flow Margin} = \frac{\text{Net Cash from Operations} - \text{PP\&E} - \text{Dividends}}{\text{Revenues}}$$

Return on Free Cash Flow

Free Cashflow is the Net Cash provided by Operations less Dividends, less Property Plant & Equipment. It is cash which can be used for any purpose management wishes - it's what is left over after all expenses are paid. It could be used to pay down debt, buy back shares, or used for new equipment or manufacturing plant, etc. If the return on Free Cashflow is not greater than the 10 year Bond rate, what is the company doing with its cash? It may mean there won't be enough to pay future Dividends, or it may mean that the company has been spent cash on new equipment or a plant. If so, you need to determine if there will be an increased future need for the product produced. If Accounts Receivable and/or Inventories are showing an increasing trend, perhaps a new plant or equipment is not needed. Look at more than one year to see the long-term trend.

Cash Position per Share:

This represents the amount of cash purchased with each share of stock purchased, or held. There is little risk in cash, therefore the actual risk in each share of stock is the price per share less this amount. A small or negative amount isn't significant. But if cash is shrinking and debt is growing, the company may be in weak financial shape. If this represents 20% or more of the stock price, it is becoming significant.

Compare Net Income Annual Change with Net Cash Annual Change:

Compare the income with the net cash to make sure that the number of sales on credit is not increasing.

Free Cash Flow per Share:

Free Cashflow can be used by management in any way they please -- buy back shares, acquire a company, invest in new property plant or equipment, etc. It represents cash which you are purchasing at the time you buy a share of stock. This means the amount at risk in buying a share is reduced by this amount. For example, when a firm's share price is low and free cash flow is on the rise, the odds are good that earnings and share value will soon be on the up, because a high cash flow per share value means that earnings per share should potentially be high as well.

Buying cash has no risk. Example: If a share is priced at \$30 and the "Free Cashflow per share" is equal to \$10, only \$20 is at risk for each share owned. If this value represents 10% or more of the per share price, it is VERY positive.

3d. Profitability Ratios

Closely linked with income ratios are profitability ratios, which shed light upon the overall effectiveness of management regarding the returns generated on sales and investment. These are a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.

Sales or Revenues Annual Change:

Flat or decreasing is not good, increasing is good.

Cost of Sales Annual Change:

If the Cost of Sales is increasing, Sales should increase too. A small change isn't considered too important. A decrease is good, an increase warrants further investigation.

Price to Sales Ratio:

Lower ratios are better. This ratio represents how much you must invest to receive one dollar worth of sales. This ratio is Industry sensitive and should be compared to companies in the same industry. Good is less than 1, caution between 1 and 3, and greater than 3 is a warning sign.

$$\text{Price to Sales Ratio} = \frac{\text{Current Price}}{\text{Revenue per Share}}$$

Gross Profit Margin current/previous year:

Expect these numbers to be greater than 50%.

$$\text{Gross Profit Margin} = \frac{\text{Cost of Sales}}{\text{Sales}}$$

Gross Profit Margin Annual Change:

Increasing = good, decreasing = bad.

Earnings Confidence Rating:

This is a ratio between Net Income and Net Cash from Operations and measures quality of earnings. How efficient is the company in producing Earnings is the question answered here. The higher the number the higher the quality of Earnings. Compare to peer companies. Very Good: over 1.5; Good: Between 1 and 1.5; Not Good: Below 1.

$$\text{Earnings Confidence Rating} = \frac{\text{Net Income from Operations}}{\text{Net Income}}$$

Number of Shares Outstanding Annual Change:

If increasing, why? Small increases may represent employee options, which, if given to all employees is normally good. Larger increases may represent dilution.

3e. Asset and Inventory Ratios

Asset turnover ratios indicate of how efficiently the firm utilizes its assets. They sometimes are referred to as efficiency ratios, asset utilization ratios, or asset management ratios.

Plant and Equipment Annual Change:

If a company invests in a new plant or equipment, sales should increase once the plant/equipment is on line. A decrease in PP&E may not speak well for future growth of the company. Look at the long term trend. If the company has been spending heavily in the past few years, perhaps additional PP&E expenditures are no longer necessary to provide a future need. Spending for PP&E in a weak economy may indicate management is taking the long-term view, preparing to take market share when the economy improves. You need to decide which is the case.

Inventory Turnover Ratio:

The higher the ratio the better, generally. Indicates quality merchandise & proper pricing. Also note the number of days Inventories are held before they become a product and sold (See "Inventories" in the "Efficiency Ratio" section). A low turnover implies poor sales and, therefore, excess inventory. A high ratio implies either strong

sales or On the other hand, an unusually high ratio compared to the average for your industry could mean a business is losing sales because of inadequate stock on hand.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Sales}}{\text{Inventory}}$$

Plant Turnover Ratio

The higher the ratio the better. If plant or equipment are added, sales should increase. Be aware it takes time for a new plant to come on line and benefit sales. Check to see what the funds for PP&E were spent for.

$$\text{Plant Turnover Ratio} = \frac{\text{Sales}}{\text{Property, Plant and Equipment}}$$

4. Financial Statement Summary

Balance Sheet

In formal bookkeeping and accounting, a balance sheet is a statement of the book value of all of the assets and liabilities (including equity) of a business or other organization or person at a particular date, such as the end of a financial year. It is known as a balance sheet because it reflects an accounting identity: the components of the balance sheet must (by definition) be equal, or in balance; in the most basic formulation, assets must equal liabilities and net worth, or equivalently, net worth must equal assets minus liabilities.

A balance sheet is often described as a "snapshot" of the company's financial condition on a given date. Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time, instead of a period of time.

A simple business operating entirely in cash could measure its profits by simply withdrawing the entire bank balance at the end of the period, plus any cash in hand. However, real businesses are not paid immediately; they build up inventories of goods to sell and they acquire buildings and equipment. In other words: businesses have assets and so they could not, even if they wanted to, immediately turn these into cash at the end of each period. Real businesses also owe money to suppliers and to tax authorities, and the proprietors do not withdraw all their original capital and profits at the end of each period. In other words businesses also have liabilities.

A modern balance sheet usually has three parts: assets, liabilities and shareholders' equity. The main categories of assets are usually listed first and are followed by the liabilities. The difference between the assets and the liabilities is known as the 'net assets' or the 'net worth' of the company.

The net assets shown by the balance sheet equals the third part of the balance sheet, which is known as the shareholders' equity. Formally, shareholders' equity is part of the company's liabilities: they are funds "owing" to shareholders (after payment of all

other liabilities); usually, however, "liabilities" is used in the more restrictive sense of liabilities excluding shareholders' equity. The balance of assets and liabilities (including shareholders' equity) is not a coincidence. Records of the values of each account in the balance sheet are maintained using a system of accounting known as double-entry bookkeeping. In this sense, shareholders' equity by construction must equal assets minus liabilities, and are a residual.

Consolidated Statement of Earnings

The statement of earnings shows how much revenue a company brings into the business by providing goods or services, or both, to its customers for a set time (usually one year). It also shows the costs and expenses associated with earning that revenue during that time.

In an annual report, the statement of earnings shows sales revenue and expenses for at least the last three years. The net earnings (or loss), often literally the "bottom line" on the statement, show how much the company earned (or lost).

Statement of Cash Flow

In financial accounting, a cash flow statement or statement of cash flows is a financial statement that shows a company's incoming and outgoing money (sources and uses of cash) during a time period (often monthly or quarterly). The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents, and breaks the analysis down according to operating, investing, and financing activities. As an analytical tool the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.

The cash flow statement reflects a firm's liquidity or solvency. The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These noncash transactions include depreciation and write-offs on bad debts. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Noncash activities are usually reported in footnotes.

The cash flow statement is intended to:

- Provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances
- Provide additional information for evaluating changes in assets, liabilities and equity
- Improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods

- Indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.

5. The Source of Our Data

The Ratio Analyzer generally uses data from the most recent quarter. If a Quarterly calculation is a 'point in time' item (as in Balance sheet items), it will use the most recent quarter (MRQ). If it is an Income statement item, it will use the trailing twelve months (TTM) value ending with the MRQ. If it is an average or difference of an item for two points in time (as in turnovers), the figure will use the MRQ and the corresponding quarter 1 year ago.

Our data comes from:

Historical company data provided by [Hemscott Americas](#).

Historical stock prices provided by [Commodity Systems Inc. \(CSI\)](#).

And provides you with:

- Up to ten years of historical fundamental and price data for more than 7,700 publicly-traded U.S. companies
- SSG formatted files suitable for import into any of ICLUBcentral's stock analysis software programs: Investors Toolkit, Stock Analyst and Classic Plus
- Data from Hemscott Americas, a premier provider of financial data to websites like Yahoo! Finance, Fortune.com, Money.com and others
- Fully-diluted, normalized EPS from continuing operations, helping you to evaluate a company's past performance without the impact of non-recurring items on the bottom line. (This approach gives investors an edge when it comes to projecting future growth and can make all the difference in your overall analysis.)

For more detailed information, please check out the data provider websites, or the Data section of our [FAQ](#) at StockCentral.com.

6. Glossary of Financial Terms

1-9

12b-1 fees

A provision of the Investment Company Act of 1940 that allows a **Mutual Fund** to collect a fee for the promotion, sale, or other activity connected with the distribution of its shares. The fee must be reasonable (typically 1/2 to 1% of net assets managed), up to a maximum of 8.5% of the offering price per share.

401(k) plan

A tax-deferred defined contribution retirement plan offered by an employer.

403(b) plan

A tax-deferred annuity retirement plan available to employees of public schools and certain nonprofit organizations.

52 Week Hi/Low Prices

The highest and lowest prices for the stock in the last 52 weeks.

A

Accounts Payable

Money owed by a company and payable within one year. It is listed on the **Balance Sheet** under **Current Liabilities**.

Accounts Receivable

Money owed to a business for merchandise or services sold on an open account. It is found on the **Balance Sheet** under **Current Assets**. It is used in analyzing a company's liquidity.

ACE

See Analysts' Consensus EPS.

Acid-Test Ratio

See Quick Ratio.

Adjusted Basis

The value attributed to an asset or security that reflects any deductions taken on, or capital improvements to the asset or security. Adjusted basis is used to compute the gain or loss on the sale or other disposition of the asset or security.

Adjusted Gross Income

Abbreviated **AGI**. Sum of **Earned Income**, net **Passive Income**, portfolio income, and capital gains. The IRS uses AGI to determine most limitations on credits or deductions in taxes.

ADR

See American Depositary Receipt.

Advance/Dcline Line

A technical analysis tool representing the total of differences between advances and declines of security prices. The advance/decline line is considered the best indicator of market movement as a whole.

Agent

See Broker-Dealer.

AGI

See Adjusted Gross Income.

All Or None

Abbreviated **AON**. Used on a buy or sell order to instruct the broker to fill the order entirely or fill none at all.

Alternative Minimum Tax

Abbreviated **AMT**. An alternative tax computation that adds certain tax preference items back into **Adjusted Gross Income**. If the AMT is higher than the regular tax liability for the year, then the regular tax and the amount by which the AMT exceeds the regular tax are paid.

American Depositary Receipt

Abbreviated **ADR**. A negotiable certificate representing a given number of shares of stock in a foreign corporation; it is bought and sold in the American securities markets, just as stock is traded. ADRs are issued by a U.S. bank, consisting of a bundle of shares of a foreign corporation that are being held in custody overseas. ADRs can be “sponsored,” which means the corporation provides financial and other information to the bank, or “unsponsored.” While ADRs have the same currency and economic risks as the underlying foreign shares, they are much more convenient for U.S. shareholders to own since there are no problems in transferring securities from a foreign country or currency conversion.

American Stock Exchange

Abbreviated **AMEX**. A market located in New York City that handles approximately one-fifth of all securities trades within the United States.

AMEX

See American Stock Exchange.

Amortization

(1) The paying off of debt in regular installments over a period of time. (2) The deduction of certain capital expenses over a specific period of time.

AMT

See Alternative Minimum Tax.

Analyst

Also known as a **Financial Analyst** or **Security Analyst**. Analysts have expertise in evaluating investments, and typically are employed by brokerage firms, investment

advisors, or mutual funds. They make buy, sell, and hold recommendations on securities, and many specialize in industries or sectors.

Analysts' Consensus EPS

Abbreviated **ACE**. An estimate of **EPS** derived by tabulating the projections of Wall Street analysts who follow a particular company.

Annual Report

A corporation's annual statement of financial operations, typically a glossy, colorful publication. Annual reports include a balance sheet, income statement, auditor's report and description of a company's operations. The **Securities and Exchange Commission** requires that publicly-traded companies file an annual report, called a **Form 10-K**, with the Commission. The 10-K contains more detailed financial information than many annual reports.

AON

See All Or None.

Appreciation

The increase in value of an asset.

Ask

Also known as an **Ask Price** or **Offer Price**. The price a seller is currently willing to accept for a particular security. On **NASDAQ**, this is the price at which a **Market Maker** is willing to sell a stock. *See also: Bid; Quotation.*

Ask Price

See Ask.

Asset

(1) Anything that an individual or a corporation owns that has economic value to its owner. Examples of an asset are cash, accounts receivable, inventory, real estate, and securities. (2) A **Balance Sheet** item expressing what a corporation owns.

Asset Allocation

The division of an investment portfolio into major asset categories, such as bonds, common stocks, or cash, usually to balance risk and reward appropriate for an investor's age.

Asset Allocation Fund

A **Mutual Fund** that splits its investment assets among stocks, bonds, and other vehicles in an attempt to provide a consistent return for the investor.

Assets-to-Equity

The ratio of assets to equity in the company; a measure of leverage, which has a bearing on the **Profitability** of the firm.

At-The-Opening Order

An order that is to be executed at the opening of the market or of trading in that security, or else it is to be canceled. The order does not have to be executed at the opening price.

Auction Market

A market in which buyers enter competitive bids, and sellers enter competitive offers simultaneously. The **NYSE** is an auction market.

Authorized Stock

The number of shares of stock that a corporation is permitted to issue. This number of shares is stipulated in the corporation's state-approved charter, and may be changed only by a vote of the corporation's stock-holders.

Average Price

In bond trading, a step in determining a bond's **Yield to Maturity**. A bond's average price is calculated by adding its face value to the price paid for it, and dividing the result by two.

Average Dividend Yield

Combined with price appreciation, the average dividend yield (if any) can show a potential total return from a security investment. The formula for the average dividend yield is:

$(\text{EPS} * \text{Average Payout}) / \text{current price}$

where $\text{EPS} = \text{Estimated Future High EPS} / (1 + \text{EPS Growth})^{2.5}$

Companies that pay a dividend will generally increase the dividend as EPS grow. Share price growth will usually follow the dividend increases, and thus keep dividend yield at a constant percentage.

Average High PE

The average high **Price-Earnings Ratio (PE)** for the past five years. Used to calculate a predicted high price.

Average Low PE

The average low **Price-Earnings Ratio (PE)** for the past five years. Used to calculate a predicted low price.

Average Low Price

The average of low prices for the last five years. This represents a possible low price for a cyclical company (e.g. General Motors) whose stock price tends to fluctuate in cycles over approximately a five year period.

Average Percent Payout

The average of the percentage of a company's profits paid out in dividends to shareholders, typically calculated over the last five years. A high percent payout can be a danger sign. Recent payout figures higher than 50%, and higher than the average payout, may forewarn of a dividend cut. A dividend cut would likely cause the stock price to fall. Generally, the higher the payout ratio, the lower the expected growth rate for the company's EPS in the future.

Sometimes, although the dividend payout is more than earnings, the company has strong cash flow and can cover the dividend in the short term. However, a company paying out dividends in excess of earnings on a recurring basis is a risky investment.

Average Pre-tax Profit Margin

Pre-tax Income divided by **Sales**. This measures how well management converts sales dollars into profits after deducting all the operating expenses for making and selling its products. Compare the last two years' pre-tax profit margins with the 5-year average to show the trend of growth.

Average Price-Earning Ratio

The average of the annual high and low **Price-Earning Ratios** for a particular time period, typically calculated over the last five years.

Average Profit Margin

See Average Pre-tax Profit Margin.

B

Back-End Load

A commission or sales fee that is charged upon the redemption of **Mutual Fund** shares or **Variable Annuity** contracts. It declines annually, and reaches zero over an extended holding period -- up to eight years -- as described in the prospectus. *See also: Front-End Load; Contingent-Deferred Sales Load.*

Balance Sheet

A company's financial statement that reports its **Assets**, **Liabilities**, and **Shareholders' Equity** on a given date. Liabilities always equal assets, hence the name "balance sheet." It is issued annually and quarterly.

Balanced Fund

A **Mutual Fund** whose stated investment policy is to have at all times some portion of its investment assets in bonds and preferred stock, as well as in common stock. This is an attempt to provide both growth and income.

Balanced Investment Strategy

A method of portfolio allocation and management aimed at balancing risk and return; a balanced portfolio may combine stocks, bonds, packaged products, and cash equivalents.

Basic Earnings Per Share

There are two kinds of Earning per Share (EPS): basic and diluted. Basic shares are fewer in number than diluted. For Basic EPS, net income is divided by the number of common shares outstanding. This usually produces a larger EPS number than when using a diluted number of shares. Be consistent in the kind of EPS you use. *See also: Diluted Earnings Per Share.*

Basis

Also known as **Cost Basis** or **Tax Basis**. A security's basis is the purchase price after commissions or other expenses, and is used to calculate capital gains or losses when the security is eventually sold.

Basis Point

A measure of a bond's **Yield**, equal to 1/100th of 1% of yield. A bond whose yield increases from 5.0% to 5.5% is said to increase by 50 basis points.

Bear

An investor who acts on the belief that a security or the market is falling or is expected to fall. *See also:* **Bull**.

Bear Market

A market in which prices of a certain group of securities are falling or are expected to fall. *See also:* **Bull Market**.

Beta

A mathematical measure of a stock's risk in relation to the overall market (usually as measured by the Standard & Poor's 500 index). **The Standard and Poor's 500** Stock Index has a beta coefficient of 1.0. A beta higher than 1.0 indicates that, on average, when the market rises, the stock will rise to a greater extent and when the market falls, the stock will fall to a greater extent. A beta lower than 1.0 indicates that, on average, the stock will move to a lesser extent than the market. The higher the beta, the greater the risk. High-beta stocks are great to own in a **Bull Market**, but not so fun to hold in a **Bear Market**.

Beta Coefficient

See beta.

Bid

An indication by an investor, a trader or a dealer of a willingness to buy a security or commodity. The price at which an investor can sell to a broker-dealer. The quoted bid is the price at which a **Market Maker** is willing to buy a stock. *See also:* **Best Bid; Quotation**.

Bid Price

The price a buyer is willing to pay for a security.

Block Trade

A trade so large that the normal auction market cannot absorb it in a reasonable time at a reasonable price. In general, 10,000 shares of stock or \$200,000 worth of bonds would be considered a block trade.

Blue Chip Stock

Stock in a well-established, financially-sound and stable company that has demonstrated its ability to pay dividends in both good and bad times, and has as a reputation for quality management, products, and services.

Blue-Sky Laws

In the early 1900's, a Kansas Supreme Court Justice wanted to protect investors from speculative ventures, i.e. those with no more basis than "so many feet of blue sky." Today the term refers to state regulations regarding the securities industry.

Board of Directors

Individuals elected by stockholders to establish corporate management policies. A board of directors decides, among other issues, if and when dividends will be paid to stockholders.

Bond

A legal obligation of an issuing company or government to repay the principal of a loan to bond investors at a specified future date. Bonds are usually issued with a **Par** or face value of \$1,000, representing the amount of money borrowed. The issuer promises to pay a percentage of the par value as interest on the borrowed funds. The **Interest** payment is stated on the face of the bond at issue.

Bond Fund

A mutual fund whose investment objective is to provide stable income with a minimal capital risk. It invests in income-producing instruments, which may include corporate, government or municipal bonds. *See also: Mutual Fund.*

Bond Quote

One of a number of quotations listed in the financial press and most daily newspapers that provide representative bid prices from the previous day's bond market. Quotes for corporate and government bonds are percentages of the bond's face value (usually \$1,000). Corporate bonds are quoted in increments of 1/8th, where a quote of 99 1/8 represents 99.125% of par (\$1,000), or \$991.25. Government bonds are quoted in 1/32nds. **Municipal Bonds** may be quoted on a dollar basis or on a yield-to-maturity basis. *See also: Quotation; Stock Quote.*

Bond Rating

An evaluation of the possibility of default by a bond issuer, based on an analysis of the issuer's financial condition and profit potential. Bond rating services are provided

by, among others, **Standard & Poor's 500**, Moody's Investors Service and Fitch Investors Service.

Book Value

Usually **Book Value per Share**. Calculated by dividing the net worth of a company (common stock plus retained earnings) by the number of shares outstanding. This is the accounting value of a share of stock, the value of the company's assets that a shareholder would theoretically receive if a company were liquidated.

The book value may have no similarity to the actual cost per share on the stock market (called market value), or even to the sum of money that the shareholder would receive if the company dissolved. Companies that are running their businesses very successfully may sell at many times their book value, while those doing poorly may sell at a discount to their book value.

Increasing book value generally indicates that the company is accumulating assets faster than debt - a good sign. Decreasing book value may be due to research and development expenses, writing down assets, losing money from operations, or issuing more shares.

Book Value per Share

See Book Value.

Bottom-Up Approach to Investing

The search for individual stocks which have outstanding performances, even within an industry which is not performing well. *See also: Top-Down Approach to Investing.*

Breakeven Point

(1) The point at which gains equal losses. (2) The market price that a stock must reach for an option buyer to avoid a loss if the **Option** is exercised. For a **Call**, it is the strike price plus the premium paid. For a **Put**, it is the strike price minus the premium paid.

Breakout

A **Technical Analysis** term, used to indicate a rise in a stock's price above its resistance level (such as its previous high price) or drop below its support level (commonly the last lowest price.) The assumption is that the stock will continue to move in the same direction following the breakout, which generates a buy or sell signal.

Broad-Based Index

An index that is designed to reflect the movement of the market as a whole. Examples include the S&P 100, the **S&P 500**, the **AMEX Major Market Index** and the **Value Line Composite Index**.

Broker

(1) An individual or firm that charges a fee or commission for executing buy and sell orders submitted by another individual or firm. (2) The role of a firm when it acts as an agent for a customer and charges the customer a commission for its services. *See also: Broker-Dealer.*

Broker-Dealer

A person or firm in the business of buying and selling securities. Also known as an **Agent** when buying securities and a **Principal** when selling them; one person may act as either, but not in the same transaction. Broker-dealers normally must register with the **SEC**, the appropriate SROs and any state in which they do business. *See also: Broker.*

Bull

An investor who thinks the market or a specific security or industry will rise. *See also: Bear.*

Bull Market

A market or a certain group of securities in which prices are rising or are expected to rise. *See also: Bear Market.*

Business and Industry Risk

Uncertainty of an investment's return due to a fall-off in business that is firm-related or industry-wide.

Business Cycle

A predictable long-term pattern of alternating periods of economic growth and decline. The cycle passes through four stages: expansion, peak, contraction, and trough.

Business Model EPS Projection

Estimates **EPS** by applying profit and tax margins to the projected sales rate five years into the future. This centers attention on profitability rather than sales expansion.

This formula may be used to estimate earnings per share five years ahead. It starts with the sales growth projection. (This is used because sales growth is historically more consistent and stable than earnings growth.) Expenses, taxes, and preferred dividends are then subtracted from sales. Finally, the result is divided by the shares outstanding to show the 5-year forecast for EPS. It is worthwhile to compare this sales-based EPS projection with other methods. This should help to confirm the reasonableness of your future 5-year EPS projection.

Buy-and-Hold

A long-term investing strategy in which an investor's stock portfolio is fully invested in the market all the time.

Buy Stop Order

An order to buy a security that is entered at a price above the current offering price and that is triggered when the market price touches or goes through the buy stop price.

Buyout

The purchase of a company or a controlling interest of a corporation's shares. A "leveraged buyout" is accomplished with borrowed money.

C

CAGR

See Compound Annual Growth Rate.

Call

(1) An option contract giving the owner the right to buy a specified amount of an underlying security at a specified price within a specified time. (2) The act of exercising a call option. *See also*: **Put**.

Call Option

The right to purchase stock at a specified (exercise) price within a specified time period.

Callable Bond

A bond that can be redeemed by the issuer prior to its **Maturity**. Usually a premium is paid to the bond owner when the bond is called.

Capital

Cash or goods accumulated and available for use in producing more cash or goods.

Capital Appreciation

A rise in the market price of an asset.

Capital Asset

All tangible property -- including securities, real estate, and other property -- held for the long term.

Capital Expenditures

Funds used by a company to acquire or upgrade physical assets such as property, plants, or equipment.

Capital Gain

An increase in the value of a capital asset such as common stock. If the asset is sold, the gain is a “realized” capital gain. A capital gain may be short-term (if the security is held one year or less) or long-term (if the security is held more than one year).

Capital Loss

The loss incurred when a capital asset, such as a security, is sold for a lower price than the purchase price. *See also:* **Capital Gain**.

Capitalization

Also known as **Invested Capital** or **Capital Structure**. The sum of a corporation's stock, long-term debt, and retained earnings.

Capitalization Rate

See Discount Rate.

Capital Stock

Ownership shares of a company, consisting of all common and preferred stock.

Capital Structure

See Capitalization.

Cash Account

An account in which the customer is required by the **SEC's Regulation T** to pay in full for securities purchased not later than two days after the standard payment period set by the NASD's Uniform Practice Code. *See also:* **Margin Account; Regulation T.**

Cash and Cash Equivalents

A section of a company's **Balance Sheet** reports the value of Cash and Cash Equivalents. These are assets that are cash or can be converted into cash immediately, such as bank accounts, marketable securities, and Treasury Bills.

Cash Dividend

Money paid to a corporation's stockholders, normally out of the corporation's current earnings or accumulated profits. All dividends must be declared by the board of directors. Dividends are taxable as income to the shareholders.

Cash Flow

Also known as **Cash Flow Per Share**. The amount of cash a company generates during a period, calculated by adding noncash charges -- such as depreciation -- to net income after taxes. Cash Flow per Share is calculated by dividing the Cash Flow by the number of outstanding shares, and is sometimes used in lieu of **Earnings per Share** in analyzing a company. Cash Flow can be used as an indication of a company's financial strength. A company pays dividends from this cash amount. Some analysts consider this figure more meaningful than net income because it is the actual amount of money generated by the company.

Cash Flow Per Share

See Cash Flow.

CBOT

See Chicago Board of Trade.

Change

(1) For an option or futures contract, the difference between the current price and the previous day's settlement price. (2) For an index or average, the difference between the current value and the previous day's market close. (3) For a stock or bond quote, the difference between the current price and the last trade of the previous day.

Chicago Board of Trade

Abbreviated **CBOT**. The oldest commodity exchange in the United States; established in 1886. The exchange lists agricultural commodity futures such as corn, oats, and soybeans, in addition to more recent innovations such as GNMA mortgages and the **NASDAQ** 100 Index.

Chinese Wall

A descriptive name for the division within a brokerage firm that prevents insider information from passing from corporate advisers to investment traders, who could use the information to reap illicit profits.

Churning

An unethical practice employed by some brokers to increase their commissions by excessively trading in a client's account. This practice violates the **NASD** Rules of Fair Practice.

Close

(1) The price of the last transaction for a particular security on a particular day. (2) The midprice of a closing trading range.

Closed-End Fund

See Investment Trust.

Closed-End Investment Company

An investment company that issues a fixed number of shares in an actively managed portfolio of securities. The shares may be of several classes; they are traded in the secondary marketplace, either on an exchange or over the counter. The market price

of the shares is determined by supply and demand, and not by net asset value. *See also: Mutual Fund.*

Closely Held Shares

Shares held by individuals closely related to a company.

Coefficient of Correlation

See R^2 (R-squared).

Commission

The fee paid to a broker to buy or sell securities. A commission increases the tax basis of the purchased security, thereby reducing the event capital loss or gain. Commissions vary widely from broker to broker.

Commodity

Any bulk good traded on an exchange or in the cash market. Examples include metals, grains, and meats.

Common Dividends

Newer companies growing rapidly may pay no or only a modest dividend, preferring to reinvest their profits in order to grow the business. More established companies often pay a dividend quarterly. *See also: Dividends.*

Common Equity

The ownership of the company may be held by two classes of shareholders, preferred and common. The stock held by the second group is called the common equity of the company. Common equity is useful in measuring the performance of a company's management. *See also: Preferred Equity.*

Common Stock

A class of stock in a company, normally with voting rights. Corporations may have several classes of common stock, as well as **Preferred Stock**, or they may have a single class of common stock. Common stockholders are on the bottom of the ladder in a corporation's ownership structure, and have rights to a company's assets only after bond holders, preferred shareholders and other debt holders have been satisfied.

Compound Annual Growth Rate

Measures the rate of change of a value over a one year period.

Compounding

The ability of an asset to generate earnings that are then reinvested and generate their own earnings; making earnings off earnings.

Conference Call

A publicly-traded company's communication with **Analysts**, **Shareholders**, and investors by telephone and/or via the Internet.

Confirmation

The written acknowledgement provided by a **Broker** that a trade has been completed. It includes details such as the date, price, commission, fees, settlement terms, and so on.

Consolidated Financial Statements

A presentation of the financial position of a parent company and its subsidiaries as one entity in a financial statement. *See also:* **Annual Report**.

Consumer Price Index

Abbreviated **CPI**. A measure of price changes in consumer goods and services used to identify periods of inflation or deflation.

Contraction

A period of general economic decline; one of the four stages of the business cycle. *See also:* **Business Cycle**.

Continuing Operations

A term used in an **Income Statement** to label income of a recurring nature, rather than that caused by sales of assets or discontinued operations.

Corporate Bond

A **Debt Security** issued by a corporation. A corporate bond typically has a par value of \$1,000, is taxable, has a term maturity, and is traded on a major exchange.

Corporation

The most common form of business organization, in which the total worth of the organization is divided into shares of stock, each share representing a unit of ownership. A corporation is ongoing and the owners face only limited liability.

Correction

A temporary decrease in stock price -- usually of at least 10%, but no greater than 20% -- in a **Bull Market**. This might signify a good time to buy.

Cost Basis

See Basis.

Coupon Bond

A debt obligation with coupons representing semiannual interest payments attached; the coupons are submitted to the trustee by the holder to receive the interest payments. No record of the purchaser is kept by the issuer, and the purchaser's name is not printed on the certificate. *See also*: **Bearer Bond**.

Coupon Rate

See Nominal Yield.

CPI

See Corporate Price Index.

Crash

A sudden, severe, and widespread decline in stock prices, usually resulting from both economic influences and panic.

Current Assets

Appears on a company's **Balance Sheet**, representing cash, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that can be converted to cash within one year.

Current Liabilities

Appears on a company's **Balance Sheet**, representing amounts owed for interest, accounts payable, short-term loans, expenses incurred but unpaid, and other debts due within one year.

Current PE Ratio

The PE Ratio calculated using the last 4 reported quarters of **Earnings Per Share**. *See also: Price-Earnings Ratio.*

Current Price / Current EPS.

Comparing it to the average PE ratio shows over or under valuation of the company. Divide the current PE by the five-year average PE. If the result is 1 or less, the stock is undervalued.

Current Ratio

Indicator of company's ability to pay short-term obligations, calculated by dividing current assets by current liabilities. Used to compare companies within a single industry. The higher the ratio, the more **Liquid** the company.

Current Yield

Annual income (interest or dividends) divided by the current price of the security. For stocks, this is the same as the **Dividend Yield**.

Cyclical Stock

A stock in an industry particularly sensitive to swings in economic conditions. Examples are housing and autos.

Cyclical Industry

A fundamental analysis term for an industry that is sensitive to the business cycle and price changes. Most cyclical industries produce durable goods such as raw materials and heavy equipment.

D

Day Order

An order to buy or sell a security that automatically expires if not executed on the day the order is placed.

Debt Due

The sum of bank and other notes payable in 12 months or less, and the portion of long term debt payable within a year.

Debt Financing

Raising money for working capital or for capital expenditures by selling bonds, bills, or notes to individual or institutional investors. In return for the money lent, the individuals or institutions become creditors and receive a promise to repay principal and interest on the debt. The other major way of raising capital is to issue shares of stock in a public offering. *See also:* **Equity Financing**.

Debt Security

A security representing a loan by an investor to an issuer such as a corporation, municipality, the federal government, or a federal agency. In return for the loan, the issuer promises to repay the debt on a specified date and to pay interest.

Debt Service

The repayment of **Interest** and **Principal** of debt.

Debt-to-Capital Ratio

The ratio of total debt to total capital ([short + long term debt] / capital). For long-term investors, a suggested acceptable percentage is up to 33%. Debt must be funded in good times and bad, so a company going through a bad slump has a better chance of recovering if its debt load is not too high. Keep in mind that debt serves the useful function of helping the company grow. It is up to management to use it wisely and increase the sales and earnings.

Debt-To-Equity Ratio

The ratio identifies the relationship of debt to ownership interest in the firm's financial structure. A measure of a company's financial leverage, calculated by dividing **Long Term Debt** by **Shareholders' Equity**. A higher debt/equity ratio generally means that a company has been aggressive in financing its growth with debt, which can result in volatile earnings as a result of the additional interest expense.

Declaration Date

The date on which a company's **Board of Directors** meet to announce the date and amount of the next dividend payment. Once the payment has been authorized, it is known as a Declared Dividend, and becomes a legal liability that must be paid.

Deduction

An item or expenditure subtracted from **Adjusted Gross Income** to reduce the amount of income subject to tax.

Deep Discount Bond

A bond that has a **Coupon Rate** far below rates currently available on investments and whose value is at a significant discount from **Par Value**.

Default

(1) The failure to pay interest or **Principal** promptly when due. (2) The failure to perform on a **Futures Contract** as required by an exchange. *See also:* **Default Risk**.

Default Risk

The risk that a company will be unable to pay the contractual interest or **Principal** on its debt obligations.

Deferred Annuity

An annuity contract that delays payments of income, installments, or a lump sum until the investor elects to receive them.

Deferred Income Taxes

On the **Balance Sheet**, deferred taxes are a liability that result from income already earned and recognized for accounting purposes, but not for tax purposes.

Deleted

Describes a security that is no longer included in The **NASDAQ** Stock Market.

Demand

A consumer's desire and willingness to pay for a good or service. *See also:* **Supply**.

Depletion

An equivalent of **Depreciation** for oil and gas reserves; an allowance that reduces taxable income.

Depreciation

(1) An expense recorded regularly on a company's books to reduce the value of a long-term tangible asset. Since it is a non-cash expense, it increases **Free Cash Flow** while decreasing the amount of a company's reported earnings. (2) A decrease in the value of a particular currency relative to other currencies.

Derivative

A security, like an **Option** or **Future**, whose value is derived from another underlying security. Futures contracts, forward contracts, and options are among the most common types of derivatives. Derivatives are generally used by institutional investors to increase overall portfolio return or to hedge portfolio risk.

Diluted Common Shares

The number of shares calculated when all **Options**, **Warrants**, **Rights**, or convertible securities are converted to common shares.

Diluted Earnings per Share

Since 1997 U.S. companies have been required to report diluted **EPS** as well as basic. Diluted EPS account for potential additional shares being distributed from **Options**, **Warrants**, or **Rights** that may be converted or exercised. If there is a choice, choose diluted EPS. *See also:* **Basic Earnings Per Share**.

Dilution

A reduction in **Earnings Per Share** of common stock. Dilution occurs through the issuance of additional shares of common stock or the conversion of convertible securities. Dilution reduces earnings per share by increasing the number of shares potentially outstanding.

Direct Purchase Stock

Over one hundred companies have registered with the **Securities and Exchange Commission** to sell shares of their stock directly to investors. Investors typically participate in that company's **Dividend Reinvestment Plan**.

Discount

The difference between the lower price paid for a security and the security's face amount at issue. *See also:* **Premium**.

Discount Bond

A bond that is valued at less than its face amount.

Discount Broker

A stockbroker who charges a reduced commission and provides no investment advice.

Discount Rate

Also known as the **Capitalization Rate**. The interest rate charged by the twelve Federal Reserve Banks for short-term loans made to member banks. This is the rate used in discounting future cash flows.

Disposable Income

Total amount of personal income after direct taxes. *See also:* **Personal Income**.

Diversification

In order to reduce risk, it is wise to own the best company in at least 10 industries, depending upon the size of your portfolio. Choose industries that are likely to have better growth than the economy as a whole.

Another way to diversify is to buy companies of various sizes in different industries. Size can be measured by the dollar figure for sales, (up to \$400M = small company; above \$4Billion = large company; middle-sized companies are in between.)

Diversified Common Stock Fund

A mutual fund that invests its assets in a wide range of **Common Stocks**. The fund's objectives may be growth, income, or a combination of both. *See also:* **Growth Fund**; **Mutual Fund**.

Dividend

Dividends may be paid in the form of cash or stock. Generally a growth company pays out no more than 50% of its earnings in dividends to shareholders. When a company has been growing rapidly over several years, it is likely to pay a modest dividend so that it can reinvest earnings in the business. In this way it will build value over the long term.

Dividends are paid to two kinds of shareholders. Preferred dividends are paid at a specified rate to shareholders who have purchased preferred shares. Should the company be in financial difficulty, the preferred shareholders would receive their due before the common shareholders.

Common shareholders may or may not receive a dividend. It depends upon the wishes of the Board of Directors. If a company has a history of paying dividends, it will likely continue to do so. If the dividend is cut, the stock price is likely to fall. *See also: Common Dividends.*

Dividend Payout Ratio

A measurement of the percentage amount of net income paid out in dividends rather than retained by the business to help it grow. Recent payout figures higher than 50% (and higher than the average payout) may forewarn of a dividend cut. This cut may result in the stock price falling. Sometimes, although the dividend payout is more than earnings, the company has strong cash flow and can cover the dividend. However, a company paying out dividends in excess of earnings on a recurring basis is a risky investment.

Dividend Reinvestment Plan

Abbreviated **DRIP** or **DRP**. Plan offered by many corporations for the reinvestment of cash dividends by purchasing additional shares or fractional shares on the dividend payment date, occasionally at a discount from market price. Many DRIPs also allow the investment of additional cash from the shareholder, known as an Optional Cash Payment or Optional Cash Purchase (OCP). The DRIP is usually administered by the company without charges or only nominal fees to the participants, and many allow additional purchases of as little as \$10.

Dividend Yield

The dividends per share paid to shareholders, expressed as a percentage of the share price. Total return on your stock investment is usually measured by adding the dividend yield percentage to the percentage return from price growth of the stock.

DJIA

See Dow Jones Industrial Average.

Do Not Reduce

Abbreviated **DNR**. Used on a Buy or Sell Order to tell the broker not to decrease the limit price on buy-limit and sell-stop orders on the record date of a cash dividend. *See also: Buy Stop Orders.*

DNR

See Do Not Reduce.

Dollar Cost Averaging

A technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price; thus purchasing more shares when prices are low, and fewer shares when prices are high. Over time, the average cost per share of the security will become smaller. This method attempts to lessen the risk of investing a large amount in a single investment at the wrong time. Used with **Mutual Funds** and **Dividend Reinvestment Plans**.

Dow Jones Averages

The most widely quoted and oldest measures of change in stock prices, tracking the prices of a group of stocks that represent Industrial, Transportation, and Utility companies.

Dow Jones Industrial Average

Abbreviated **DJIA**. Price-weighted average of 30 actively traded blue-chip stocks, traditionally of industrial companies.

DRIP

See Dividend Reinvestment Plan.

DRP

See Dividend Reinvestment Plan.

Due Diligence

The careful investigation by the underwriters that is necessary to ensure that all material information pertinent to an issue has been disclosed to prospective investors.

E

Earned Income

Income derived from active participation in a trade or business. Includes wages, salary, tips, commissions and bonuses. *See also:* **Unearned Income**.

Earned on Equity

See Return on Equity (ROE).

Earnings

Net income for a company during a specific period, generally (but not always) referring to after-tax income.

Earnings Before Interest, Taxes, Depreciation, and Amortization

Although it is not defined by **GAAP**, EBITDA can be used to analyze a company's profitability. Differs from a **Cash Flow** statement by excluding changes in working capital and payments for taxes and interest. Calculated by adding **Net Income**, income taxes, **Interest**, **Depreciation**, and **Amortization**.

Earnings per Share

Abbreviated **EPS**. The net income or profits (after taxes) divided by the number of shares of common stock outstanding. There are several kinds of EPS reported. Two of the most common are basic or diluted. Basic shares are fewer in number than diluted. For **Basic EPS**, net income is divided by the number of common shares outstanding. This produces a larger EPS number than when using a diluted number of shares. It is wise to consistently use either basic or diluted EPS in your stock analyses.

Another kind of EPS reported may be non-recurring EPS. This is used when a company has had an unusual, non-repeating occurrence that affected its earnings. Generally you would exclude this non-recurring event. However, you would want to understand any possible long-term consequences of the occurrence. Beware of companies whose earnings are erratic over time, negative, or declining in value. *See also:* **Diluted EPS**.

Earnings Report

See Income Statement.

Earnings Yield

Earnings per share for the most recent 12 months divided by market price per share. Relates the generation of earnings to share price. It is the inverse of the **Price-Earnings Ratio**.

EBITDA

See Earnings Before Interest, Taxes, Depreciation, and Amortization.

EDGAR

Acronym for **Electronic Data Gathering, Analysis, and Retrieval**. The **Securities and Exchange Commission's** electronic system used by all publicly-traded companies to transmit required filings to the SEC. The SEC provides a free EDGAR; other companies provide their own EDGAR services that include additional information and search capabilities.

Electronic Data Gathering, Analysis, and Retrieval

See EDGAR.

EPS

See Earnings Per Share.

ETF

See Exchange Traded Fund.

Equity

See Shareholders' Equity

Equity Financing

Raising money for working capital or for capital expenditures by selling common or preferred stock to individual or institutional investors. In return for the money paid, the individuals or institutions receive ownership interests in the corporation. *See also:* **Debt Financing**.

Excess Returns

Returns in excess of the risk-free rate or in excess of a market measure such as the **S&P 500 index**.

Exchange

A market where stocks are bought and sold. For example: New York Stock Exchange (NYSE), American Stock Exchange (AMEX), National Association of Securities Dealers Automated Quotations Stock Market (NASDAQ), Over the Counter (OTC).

Exchange Traded Fund

Abbreviated **ETS**. An open-ended **Mutual Fund** that can be continuously traded throughout the day. ETFs attempt to replicate the changes of an index of a specific financial market, so active management is unnecessary. *See also*: **Index Fund**.

Ex-Date

See Ex-Dividend Date.

Ex-Dividend Date

Also known as the **Ex-Date**. The first date on which a security is traded without entitling the buyer to receive distributions previously declared. This is the date after which the seller, and not the buyer, of a stock will be entitled to a recently announced dividend. It is usually several business days before the record date, and is indicated in newspaper listings with an "x."

Execution

The completion of a buy or sell order.

Expected Return

The average of a probability distribution of possible returns.

F

Face Value

See Par.

Federal Funds Rate

The interest rate charged by one institution lending federal funds to another.

Federal Open Market Committee

Abbreviated **FOMC**. A committee that makes decisions concerning the Fed's operations to control the money supply.

Federal Reserve Board

Abbreviated **FRB**. A seven-member group that directs the operations of the Federal Reserve System. Board members are appointed by the president, subject to approval by Congress.

FFO

See Funds From Operations.

Fiduciary

A person legally appointed and authorized to hold assets in trust for another person and manage those assets for the benefit of that person.

Final Prospectus

The legal document that states the price of a new issue security, the delivery date, the underwriting spread, and other material information. It must be given to every investor who purchases a new issue of registered securities. *See also: Prospectus.*

Financial Analyst

See Analyst.

Financial Planner

An investment professional generalist who helps individuals delineate financial plans with specific objectives and helps coordinate various financial concerns.

Fiscal Policy

The federal tax and spending policies set by Congress or the president. These policies affect tax rates, interest rates and government spending in an effort to control the economy. *See also:* **Monetary Policy**.

Fiscal Year

Abbreviated **FY**. A corporation's accounting year that may differ from the calendar year. Fiscal year is defined in various ways, according to the source of the data.

Value Line: If FY ends prior to May 15/09, the label will be FY 2008. May 15/09 or later will be FY 2009.

Standard & Poor's: Regardless of date, FY is the calendar year in which FY ends.

Fixed Annuity

An insurance contract in which the insurance company makes fixed dollar payments to the annuitant for the term of the contract, usually until the annuitant dies. The insurance company guarantees both **Earnings** and **Principal**. *See also:* **Variable Annuity**; **Fixed Dollar Annuity**; **Guaranteed Dollar Annuity**.

Fixed Asset

A tangible, long term asset such as land or building, held for use rather than sale.

Flat Yield Curve

A chart showing the yields of bonds with short maturities as equal to the yields of bonds with long maturities. *See also:* **Inverted Yield Curve**; **Normal Yield Curve**; **Yield Curve**.

Float

The total number of outstanding shares available on the market.

Floor Trader

An exchange member who executes transactions from the floor of the exchange only for his own account.

FOMC

See Federal Open Market Committee.

Foreign

A non U.S. company with securities trading on The **NASDAQ** Stock Market.

Foreign Currency Effects

Returns on foreign investments will increase (in terms of dollars) to the extent a foreign currency appreciates relative to the dollar. The opposite would be true for declining foreign currencies.

Form 10-K

The annual report required by the **Securities and Exchange Commission** (SEC) in the U.S. for every company with 500 or more shareholders or with \$1 million or more in gross assets. This form becomes public information when filed with the SEC. It is available on the Internet or from the company. *See also:* **10-Q**.

Form 10-Q

The quarterly report of a company with listed securities, required to be filed with the **Securities and Exchange Commission** (SEC). It is less comprehensive than the **10-K** annual report and does not require that figures be audited. It may cover the specific quarter or it may be cumulative. It should include comparative figures for the same period of the previous year. It is available on the Internet or from the company. *See also:* **10-K**.

Fundamental Analysis

A method of security analysis based on fundamental facts found in a company's balance sheet and income statement e.g. sales, earnings, dividends. These past records are examined to attempt to predict the company's future growth of sales and earnings as well as stock price growth, for example.

FRB

See Federal Reserve Board.

Free Cash Flow per Share

Net income plus all non-cash expenses, minus dividends and capital expenditures, on a per share basis. A measure of a firm's financial flexibility.

Front-End Load

(1) A mutual fund commission or sales fee that is charged at the time shares are purchased. The load is added to the net asset value of the shares when calculating the public offering price. See also back-end load. (2) A system of sales charge for contractual plans that permits up to 50% of the first year's payments to be deducted as a sales charge. Investors have a right to withdraw from the plan, but there are some restrictions if this occurs. *See also: Back-End Load.*

Fund Manager

See Portfolio Manager.

Fundamental Analysis

A method of evaluating securities by attempting to measure the intrinsic value of a particular stock. The method is based on fundamental factors, such as revenues, earnings, future growth, return on equity, profit margins, and so on, to determine a company's underlying value and potential for future growth. Fundamental analysts study the overall economy, industry conditions and the financial condition and management of particular companies. *See also: Technical Analysis.*

Funds From Operations

Abbreviated **FFO**. Used by **Real Estate Investment Trusts (REITS)** to define the cash flow from their operations. It is calculated by adding **Depreciation** and **Amortization** expenses to earnings, and can be represented as Funds From Operations Per Share (**FFO/S**). **FFO/S** should be used in lieu of **EPS** when evaluating REITs and other similar investment trusts.

Futures Contract

A standardized, exchange-traded agreement to buy or sell a particular type and grade of commodity for delivery at an agreed-upon place and time in the future. Futures contracts are transferable between parties.

Futures Market

A continuous auction market in which participants buy and sell commodities contracts for delivery on a specified future date. Trading is traditionally carried on through open outcry and hand signals in a trading pit or ring.

FY

See Fiscal Year.

G

GAAP

See Generally Accepted Accounting Principles.

GDP

See Gross Domestic Product.

General Obligation Bond

Abbreviated **GO**. A municipal bond backed by the full faith, credit, and “taxing power” of the issuing unit rather than the revenue from a given project.

General Securities Registered Representative License

See Series 7.

Generally Accepted Accounting Principles

Abbreviated **GAAP**. The standard guidelines for financial accounting, including rules and standards for summarizing and recording transactions, and for the preparation of financial statements. GAAP accepts various accounting methods, and simply serves as a set of guidelines to help standardize procedures.

GIC

See Guaranteed Investment (Interest) Contract.

GNMA Pass-Through Certificate

Fixed-income securities that represent an undivided interest in a pool of federally insured mortgages put together by GNMA, the Government National Mortgage Association (Ginnie Mae).

GO

See General Obligation Bond.

Going Public

The process of selling shares -- that were formerly privately-held -- to new investors for the first time.

Good 'Til Canceled

Abbreviated **GTC**. This is an order to buy or sell a security that is good until the investor cancels it. Most brokerage firms let GTC orders automatically expire after 30 - 60 days.

Government Security

A debt obligation of the U.S. government, backed by its full faith, credit and taxing power, and regarded as having no risk of default. The government issues short-term **Treasury Bills**, medium-term **Treasury notes**, and long-term **Treasury bonds**.

Gross Domestic Product

Abbreviated **GDP**. A measure of output from United States factories and related consumption in the United States. It includes consumption, government purchases, investments, and exports minus imports. It does not include products made by U.S. companies in foreign markets.

Growth Fund

A diversified common stock fund that has capital appreciation as its primary goal. It invests in companies that reinvest most of their earnings for expansion, research, or development. *See also:* **Diversified Common Stock Fund**; **Mutual Fund**.

Growth Rates

The compounded annualized rate of growth of a company's **Revenues**, **Earnings**, **Dividends**, or another figure.

Growth Stock

A company with excellent prospects for above-average future increases (or growth) for sales, earnings, and price. Look for a company that is a leader in its industry.

GTC

See Good 'Til Canceled.

Guaranteed Investment (Interest) Contract

Abbreviated **GIC**. Debt instrument sold in large denominations often bought for retirement plans. The word guaranteed refers to the interest rate paid on the GIC; the principal is at risk.

H

Hedge

An investment made in order to reduce the risk of adverse price movements in a security. Normally, a hedge consists of a protecting position in a related security.

Held

A situation where a security is temporarily not available for trading (e.g. **Market Makers** are not allowed to display quotes).

High PE

The highest **Price-Earnings Ratio** at which the stock sold during a year.

High Yield

The highest Dividend Yield for a particular year. It is useful to measure the current dividend yield against the historical high yield. If the current yield is lower, then there may be room for an increase in dividend to bring the yield closer to the former high.

Holding Period Return/Yield

Income plus price appreciation during a specified time period divided by the cost of the investment.

HR-10 Plan

See Keogh Plan.

Implied Growth

The future growth rate for earnings, implied by the company's average **Return On Equity** and **Return On Earnings** retention rates.

Implied Return

The sum of implied internal growth plus the projected average **Dividend Yield**.

Income Before Taxes

See Pre-tax Income.

Income Fund

A mutual fund that seeks to provide stable current income by investing in securities that pay interest or dividends. *See also:* **Mutual Fund**.

Income Statement

Also Known as the **Earnings Report**. The portion of a financial report showing income and expenses, and comparing them the same period last year.

Index

A statistical measure of the changes in a portfolio representing a market. The **Standard & Poor's 500** is the most well-known index, which measures the overall change in the value of the 500 stocks of the largest firms in the U.S.

Index Fund

A collective fund that attempts to replicate the movements and characteristics of the **Index** of a certain financial market. There are many methods of replication, like holding securities in the same proportion as the index.

Indicated Dividend

The total dividends that would be paid on a share of stock in the next twelve months, provided that each dividend is the same amount as the latest payment.

Indicated Yield

The yield that a share of stock would return based on its current **Indicated Dividend**, calculated by dividing the indicated dividend by the current share price.

Individual Retirement Account

Abbreviated **IRA**. A retirement investing tool for employed individuals that allows for an annual contribution of 100% of earned income up to a maximum of \$2,000. Some or all of the contribution may be deductible from current taxes, depending on the individual's adjusted gross income and coverage by employer-sponsored qualified retirement plans. Withdrawals of tax deferred contributions are taxed as income, including the capital gains. *See also: Keogh Plan; Roth IRA.*

Industry

Category groupings for companies according to their business. These may vary somewhat according to the authority doing the grouping (e.g. **Value Line**, **Standard & Poor's**, etc.). When looking for good investments, it is wise to compare several companies in the same industry and to pick the best of the group for purchase.

Industry Fund

See Sector Fund.

Industry Sector

A grouping of industries into a broader economic definition (e.g., transportation, cyclical companies, consumer goods).

Inflation

A widespread rise in prices that exceeds that rate of increased purchasing power.

Inflation Risk

Uncertainty about the future real (after-inflation) value of your investment.

Initial Public Offering

Abbreviated **IPO**. The first sale of stock by a company to the public. IPOs are often smaller, newer companies seeking equity capital to expand their businesses.

Inside Market

The highest bid and the lowest offer prices among all competing **Market Makers** in a **NASDAQ** security, i.e., the best bid and offer prices.

Insider

Any person who has or has access to material nonpublic information about a corporation. Insiders include directors, officers, and stockholders who own more than 10% of any class of equity security of a corporation.

Insider Information

Information about a company's activities that has not been disclosed to the general public. It is illegal for anyone with access to such information to make trades based on it.

Insider Ownership

Employees, executives and directors who have their own money invested in the company are **Insiders**. By holding shares, they show that they have confidence in the security and future of their investment. They have extra incentive to make the company profitable. The percentage of insider ownership desirable is a judgment call. At 51% or more, the insiders definitely have the controlling interest.

Insider Trading

Illegal trading by anyone considered an insider who has access to non-public information, and who attempts to profit from that knowledge. If the information is used to illegally make a profit, there may be large fines and possible jail sentences.

Institutional Investor

A person or organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions. An institutional order can be of any size. Institutional investors are covered by fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves.

Institutional Ownership

The percentage of shares held by mutual funds, trust funds, and other professional managers who hold large blocks of shares for their clients. Fund managers tend to make changes in their portfolio of stocks more frequently and for different reasons than individual long-term investors do. These large sales can create larger than normal price changes. This is why a substantial percentage of institutional ownership may be considered a disadvantage.

Intangibles

Assets such as goodwill, patents, unamortized debt discounts, and deferred charges.

Interest

The charge for the privilege of borrowing money, usually expressed as an annual percentage rate.

Interest Coverage

The number of times all interest charges are earned by pre-tax, pre-interest earnings, typically at least 3 times. The formula is the Interest expense plus pre-tax income , and divide this sum by the interest expense.

Inventories

Includes raw materials, works in process, and finished goods.

Inventory Turnover

This ratio shows how many times the units of inventory of a company are sold and replaced during an accounting period. The 'convention' is to divide sales by the inventory. However, it is more realistic to divide the cost of goods sold by inventory.

Inverted Yield Curve

A chart showing long-term debt instruments having lower yields than short-term debt instruments. Also known as a **Negative Yield Curve**. *See also: Flat Yield Curve; Normal Yield Curve.*

Invested Capital

See Capitalization.

Investment Adviser

(1) Any person who makes investment recommendations in return for a flat fee or percentage of assets managed. (2) For investment companies, the individual who has the day-to-day responsibility of investing the cash and securities held in the fund's portfolio in accordance with the objectives stated in the fund's prospectus.

Investment Banker

An institution in the business of raising capital for corporations and municipalities. An investment banker may not accept deposits or make commercial loans. *See also:* **Commercial Bank; Investment Bank.**

Investment Club

A group of people who meet periodically to discuss and implement investment strategies.

Investment Trust

Commonly known as a **Closed-End Fund**. Closed-end funds invest in other securities (like a **Mutual Fund**) but have a fixed number of shares and are traded similarly to stocks. The market price may exceed the **Net Asset Value** (NAV) per share, in which case the fund is selling at a **Premium**. When the market price falls below the NAV, the fund is selling at a **Discount**.

Investor

A person who seeks to minimize risk in the purchase of securities. Companies with good track records are preferred and purchase at fair value is important. Companies are held for the long-term (at least 3 to 5 years) rather than trying to time the market.

Investor Sentiment

Investors' expectations of how a market will perform. It is described as bullish (with expectation of higher prices) or bearish (lower prices). *See also:* **Bull; Bear.**

IPO

See Initial Public Offering.

IRA

See Individual Retirement Account.

Issuer

(1) The entity, such as a corporation or municipality, that offers or proposes to offer its securities for sale. (2) The creator of an option: the issuer of an over-the-counter option is the option writer, and the issuer of a listed option is the Options Clearing Corporation. There are two exceptions to the definition of issuer. In the case of voting-trust certificates or collateral-trust certificates, the issuer is the person who assumes the duties of depositor or manager. Also, there is considered to be no issuer for certificates of interest or participation in oil, gas, or mining titles or leases where payments are made out of production.

J

Judgment

The human element which is necessary for successful investing. Computers can crunch numbers, follow formulas, and provide some artificial intelligence, but judgment is crucial for making the careful decisions. The investor must be informed about the company's past and future plans, and be prepared to make some educated estimates about future trends. In all cases, judgment must be applied when doing any stock analysis.

Junk Bond

Bond purchased for speculative purposes. They are usually rated BB and lower, and they have a higher default risk.

K

Keogh Plan

Also known as a **HR-10 plan**. A qualified tax-deferred retirement plan for persons who are self-employed and unincorporated or who earn extra income through personal services aside from their regular employment. *See also:* **Individual Retirement Account**.

Keynesian Economics

The theory that active government intervention in the marketplace is the best method of ensuring economic growth and stability.

Kill

Cancel a trade or order that has been placed but not filled.

L

Lagging PE Ratio

See Trailing PE Ratio.

Last-Sale Reporting

The electronic entry by **NASD** members to The **NASDAQ Stock Market** of the price and the number of shares involved in a transaction in a NASDAQ security. The trade reported must be submitted to NASDAQ within 90 seconds of the execution of the trade.

Leading Indicator

A measurable economic factor that changes just before a particular pattern or trend emerges. Leading indicators are believed to predict changes in the economy. Examples include new orders for durable goods, slowdowns in deliveries by vendors, and numbers of building permits issued. *See also:* **Coincident Indicator**; **Lagging Indicator**.

Leading PE Ratio

See Projected PE Ratio.

Least Squares

A method used to calculate the slope of a trend line. This growth calculation uses the logarithm of the values. As the log of numbers less than 1.0 is mathematically undefined, the computer tests for this condition and alters the data values so that a calculation can be made. Least squares produce a more conservative result than the mid-point method.

Leverage

The extent to which a company uses debt to finance expansion and growth. It is measured by the **Debt to Equity** and **Debt to Capital Ratios**. When comparing companies' leverage ratios, do so within the same industry, to be fair.

Liabilities

Debts of a corporation, usually divided into current (those due within one year) and **Long-Term Debt** (those payable after one year).

Limit Order

An order placed with a broker to buy or sell at a price as good or better than the specified limit price. Sometimes known as an **Or Better Order**.

Liquidity

The ability of a company to convert assets into cash or equivalents without significant loss. Good liquidity enables a company to earn discounts, maintain a good credit rating, meet obligations promptly, and take advantage of market opportunities.

Long

Or **Long Position**. Describes the owning of a **Security**. An owner of shares of McDonald's Corp. is said to be "long McDonald's" or "has a long position in McDonald's."

Long Position

See Long.

Long-Term Assets

On the balance sheet, the value of a company's property, equipment and other capital assets, minus depreciation. These are usually recorded "at cost" and so do not necessarily reflect the market value of the assets.

Long-Term Debt

Often companies need more funds to support their activities than their profits can provide. Therefore they will borrow money and make interest payments regularly. Long-term debt describes the debt amount due after one year or more.

Long Term Debt-to-Capitalization

A ratio that indicates a company's financial leverage. It is calculated by dividing long term debt by the capital available to the company. The available capital is the sum of long term debt, preferred stock and stockholders' equity.

Long Term Liabilities

A company's liabilities for leases, bond repayments, and other items due in more than one year.

Low PE

The lowest PE ratio at which the stock sold during the year.

M

M1

A category of the money supply that includes all coins, currency, and demand deposits -- that is, checking accounts and NOW accounts. *See also:* **M2; M3; Money Supply.**

M2

A category of the money supply that includes **M1** in addition to all time deposits, savings deposits, and noninstitutional **Money-Market Funds**. *See also:* **M1; M3; Money Supply.**

M3

A category of the money supply that includes **M2** in addition to all large time deposits, institutional **Money-Market Funds**, short-term repurchase agreements and certain other large liquid assets. *See also:* **M1; M2; Money Supply.**

Make a Market

To stand ready to buy or sell a particular security as a dealer for its own account. A market maker accepts the risk of holding the security. *See also:* **Market Maker.**

Margin

The use of borrowed money to purchase securities. This action is expressed by the phrase "buying on margin."

Margin Account

A brokerage account in which the broker lends the customer cash to purchase securities. The loan in the account is collateralized by the securities, and if the value of the stock drops sufficiently, the account holder will be required to deposit more cash or sell a portion of the stock. *See also:* **Cash Account; Regulation T.**

Margin Call

The **Federal Reserve Board**'s demand that a customer deposit a specified amount of money or securities when a purchase is made in a **Margin Account**. The amount is expressed as a percentage of the market value of the securities at the time of purchase. The deposit must be made within one payment period. *See also: Margin; Fed Call.*

Margin Of Profit Ratio

Also known as the **Operating Profit Ratio**. A measure of a corporation's relative profitability. It is calculated by dividing the operating profit by the net sales. *See also: Profit Margin.*

Markdown

The difference between the highest current bid price among dealers and the lower price that a dealer pays to a customer.

Market Arbitrage

The simultaneous purchase and sale of the same security in different markets to take advantage of a price disparity between the two markets.

Market Capitalization

The dollar valuation of the total number of shares times the current price. This value is sometimes used by investors to classify stocks by size. It is not as reliable as classifying by sales dollar value because the price of a stock can be inflated by the market and not accurately representative of its size.

Market Maker

On the **NASDAQ** system, a broker-dealer willing to accept the risk of holding a particular number of shares of a particular security in order to facilitate trading in that security. There are over 500 member firms that act as NASDAQ Market Makers. One of the major differences between The **NASDAQ Stock Market** and other major markets in the U.S. is NASDAQ's structure of competing Market Makers. Each Market Maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the Market Maker will immediately purchase for or sell from its own inventory, or seek the other side of the trade until it is executed, often in a matter of seconds.

Market Maker Spread

The difference between the price at which a Market Maker is willing to buy a security and the price at which the firm is willing to sell it. Simply put, the Market Maker Spread is the difference between the bid and ask for a given security. Since each Market Maker can either buy or sell a stock at any given time, the spread is representative of the profit Market Maker makes on each trade.

Market Order

Also known as an **Unrestricted Order**. An order to buy or sell a stock immediately at the best available current price. A market order is the only order that guarantees execution.

Market Risk

The potential for an investor to experience losses owing to day-to-day fluctuations in the prices at which securities can be bought or sold. The Market Risk expresses the volatility of a stock price relative to the overall market as indicated by beta.

Market Surveillance

The department responsible for investigating and preventing abusive, manipulative, or illegal trading practices on **The NASDAQ Stock Market**. Considerable resources are devoted to surveilling The NASDAQ Stock Market. A vast array of sophisticated automated systems reviews each trade and price quotation on an on-line, real-time basis. Off-line computer-based analyses are conducted to evaluate trading patterns on a monthly, weekly, and daily basis.

Market Timing

An attempt to sell a stock or portfolio when a market is at a high and buying at a low, or an attempt to leave the market entirely during downturns and reinvesting when it heads back up. Requires a crystal ball to be effective, and is generally an exercise in futility.

Market-to-Book Ratio

See Price-to-Book Ratio.

Market Value

The price at which investors buy or sell a share of common stock or a bond at a given time. Market value is determined by the interaction between buyers and sellers.

Markup

The difference between the lowest current offering price among dealers and the higher price a dealer charges a customer.

Matching Orders

Simultaneously entering identical (or nearly identical) buy and sell orders for a security to create the appearance of active trading in that security. This violates the antifraud provisions of the Securities Exchange Act of 1934.

Material News

News released by a **NASDAQ** company that might reasonably be expected to affect the value of a company's securities or influence investors' decisions. Material news includes information regarding corporate events of an unusual and non-recurring nature, news of tender offers, unusually good or bad earnings reports, and a stock split or stock dividend. *See also: Trading Halt.*

Maturity

The length of time until the **Principal** amount of a bond must be repaid.

Maturity Date

The date on which a bond's **Principal** is repaid to the investor and interest payments cease. *See also: Par.*

Member

(1) Of the **New York Stock Exchange**: one of the 1,366 individuals owning a seat on the Exchange. (2) Of the **National Association of Securities Dealers** (NASD): any broker or dealer admitted to membership in the Association.

Member Firm

A broker-dealer in which at least one of the principal officers is a member of the **New York Stock Exchange**, another exchange, a self-regulatory organization, or a clearing corporation.

Merger

The combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Mid-Point

A method of calculating sales and EPS growth on a graph. It bases growth on averaged values. For 10 years of data, averages are calculated for the first and last 5 years. Each average determines a point between which an imaginary line is drawn to calculate the growth of the slope. For an odd number of years, the data is split so that the middle year is accounted in both averaged sums.

Monetary Policy

The actions of the **Federal Reserve Board** that determine the size and rate of growth of the **Money Supply**, which in turn affect **Interest Rates**. *See also: Fiscal Policy.*

Money Market

The securities market that deals in short-term debt. Money-market instruments are forms of debt that **Mature** in less than one year and are very **Liquid**. Treasury bills make up the bulk of the money-market instruments.

Money-Market Fund

A **Mutual Fund** that invests in short-term debt instruments. The fund's objective is to earn interest while maintaining a stable net asset value of \$1.00 per share. Generally sold with no load, the fund may also offer draft-writing privileges and low opening investments.

Money Supply

The total stock of bills, coins, loans, credit and other liquid instruments in the economy. It is divided into four categories -- **M1**, **M2**, and **M3** -- according to the type of account in which the instrument is kept.

Most Active

Most active NASDAQ National Market stocks.

Moving Average

A technical analysis term. Expresses the charting of the average prices of a security for a particular period using average daily settlement prices over a defined period of time. For example, charting for thirty days produces a thirty-day moving average.

Municipal Bond

Also known as **Municipal Security**. A debt security issued by a state, a municipality, or other subdivision -- such as a school, park, sanitary, or other local taxing district --

to finance its capital expenditures. Such expenditures might include the construction of highways, public works or school buildings.

Municipal Bond Fund

A **Mutual Fund** that invests in **Municipal Bonds** and operates either as a unit investment trust or as an open-end fund. The fund's objective is to maximize federally tax-exempt income.

Municipal Security

See Municipal Bond.

Mutual Fund

Also known as Open-End Investment Company or an Open-End Management Company. An investment company that continuously offers new equity shares in an actively managed portfolio of securities. All shareholders participate in the gains or losses of the fund. Shares are issued and redeemed as per demand, and the fund's **Net Asset Value** per share (NAV) is determined each day. The shares are redeemable on any business day at the Net Asset Value. Each mutual fund's portfolio is invested to match the objective stated in the prospectus. *See also:* **Asset Allocation Fund**; **Balanced Fund**.

N

NASD

Abbreviation for The National Association of Securities Dealers, Inc. NASD is the self-regulatory organization of the securities industry responsible for the operation and regulation of the **NASDAQ** Stock Market and over-the-counter markets.

NASDAQ

Abbreviation for the National **Association of Securities Dealers Automated Quotation System**. NASDAQ is a nationwide computerized quotation system that produces current bid and asked quotations on over 5,500 **Over-The-Counter** stocks.

National Association of Securities Dealers, Inc.

See NASD.

National Association of Securities Dealers Automated Quotation System

See NASDAQ.

NAV

See Net Asset Value.

NAV per share

The value of a mutual fund share. The NAV per share is calculated by dividing the total **Net Asset Value** of the fund by the number of shares outstanding.

Negative Yield Curve

See Inverted Yield Curve.

Net Asset Value

Abbreviated **NAV**. The value of a **Mutual Fund** share calculated once a day, based on the closing market price for each security in the fund's portfolio. It is computed by deducting the fund's liabilities from the total assets of the portfolio and dividing this amount by the number of shares outstanding.

Net Change

The difference between the closing price of a security on the trading day reported and the previous day's closing price. In over-the-counter transactions, the term refers to the difference between the closing bids.

Net Domestic Product

A measure of the annual economic output of a nation adjusted to account for depreciation. It is calculated by subtracting the amount of depreciation from the **Gross Domestic Product**.

Net Earnings

See Net Profit.

Net Income

See Net Profit.

Net Income Before Taxes

See Pre-tax Income.

Net Interest Margin

A ratio used for evaluating management for bank stocks. Measures the difference between interest paid and interest collected.

Net Profit

Also known as **Net Earnings** or **Net Income**. Profits remaining after all expenses and taxes are applied and out of which dividends are payable.

Net Profit Margin

A measurement defined as the net income before non-recurring gains and losses, as a percentage of sales or revenues.

Net Worth

See Shareholders' Equity.

New York Stock Exchange (NYSE)

The largest stock exchange in the United States. It is a corporation, operated by a board of directors, and it is responsible for setting policy, supervising Exchange and member activities, listing securities, overseeing the transfer of members' seats on the Exchange, and judging whether an applicant is qualified to be a specialist.

NMF

See No Meaningful Figure.

No Meaningful Figure

Definition needed

No Quote

Designation that indicates that no market makers are making an inside market at this time.

No-Load Fund

A mutual fund whose shares are sold without a commission or sales charge. The shares are distributed directly by the investment company. See also mutual fund; net asset value.

Nominal Yield

Also known as **Coupon Rate** and **Stated Yield**. The interest rate stated on the face of a bond that represents the percentage of interest to be paid by the issuer on the face value of the bond.

Normal Yield Curve

Also known as **Positive Yield Curve**. A chart showing long-term debt instruments having higher yields than short-term debt instruments. *See also:* **Flat Yield Curve**; **Inverted Yield Curve**; **Yield Curve**.

Normalized Earnings

Earnings adjusted for either cyclical changes in the economy, and/or for one-time influences

Note

A short-term debt security, usually maturing in five years or less. *See also:* **Treasury Note**.

O

Odd Lot

An amount of a **Security** that is less than the normal unit of trading for that security. Generally, an odd lot is fewer than 100 shares of stock or five bonds.

Odd Lot Theory

A technical analysis theory based on the assumption that the small investor is always wrong. Therefore, when odd lot sales are up - which means small investors are selling stock -- it is probably a good time to buy.

Offer Price

See Ask.

Offset

To liquidate a futures position by entering an equivalent but opposite transaction. To offset an initial purchase, a sale is made; to offset an initial sale, a purchase is made. *See also: Futures Market.*

Open Order

An order to buy or sell a security that remains in effect until it is either canceled by the customer or executed.

Open-Ended Investment Company

See Mutual Fund.

Open-Ended Management Company

See Mutual Fund.

Opening Range

See Range.

Operating Expenses

The day-to-day costs incurred in running a business.

Operating Income

The income from normal company operations, after deducting all expenses except taxes.

Operating Margin

A Value Line measurement defined as operating earnings (before deduction of **Depreciation, Depletion, Amortization, Interest**, and income tax) as a percentage of sales or revenues. *See also:* **Value Line Financial Strength**.

Operating Profit Ratio

See Margin Of Profit Ratio.

OPS

See Online Premium Services.

Option

A security that represents the right to buy or sell a specified amount of an underlying stock, bond, futures contract, etc. at a specified price within a specified time. The purchaser acquires a right, and the seller assumes an obligation.

Or Better Order

See Limit Order.

OTC

See Over The Counter.

OTC Market

See Over The Counter Market.

Other Current Assets

A balance sheet item. The value of non-cash assets -- such as prepaid expenses and accounts receivable -- due within one year.

Other Long Term Liabilities

A balance sheet item. Value of leases, future employee benefits, deferred taxes, and other obligations not requiring interest payments that must be paid over a period of more than one year.

Outlier

A data figure that differs from the normal trend. It is generally caused by extraordinary or non-recurring financial events.

Over The Counter

Abbreviated **OTC**. The term used to describe a security that is traded through the telephone- and computer-connected **OTC Market** rather than through an exchange.

Over The Counter Market

Abbreviated **OTC Market**. The security exchange system in which broker-dealers negotiate directly with one another rather than through an auction on an exchange floor. The trading takes place over computer and telephone networks that link brokers and dealers around the world. Both listed and OTC securities, as well as municipal and U.S. government securities, are traded in the OTC market.

Overbought

A technical analysis term for a market in which more and stronger buying has occurred than the fundamentals justify. *See also:* **Oversold**.

Oversold

A technical analysis term for a market in which more and stronger selling has occurred than the fundamentals justify. *See also:* **Overbought**.

P

Par

Also known as **Face Value**, **Principal**, and **Stated Value**. (1)The face value of a bond--generally \$1,000 for corporate issues and higher denominations for many government issues. (2) A dollar amount assigned to a security when first issued. For stocks, par is usually a small dollar amount that bears no relationship to the security's market price. *See also:* **Maturity Date**.

Passive Income

Earnings derived from a rental property, limited partnership, or other enterprise in which the individual is not actively involved. Passive income therefore does not include earnings from wages or active business participation, nor does it include income from dividends, interest, and capital gains. *See also:* **Passive Loss; Unearned Income.**

Passive Loss

A loss incurred through a rental property, limited partnership, or other enterprise in which the individual is not actively involved. Passive losses can be used to offset passive income only, not wage or portfolio income. *See also:* **Passive Income.**

Payable Date

Announced on the **Declaration Date**. The date on which the **Dividend** will be paid to its entitled stockholders.

The date a dividend will be paid to entitled shareholders. This date is set by the company on the declaration date.

Payback Period

The length of time it takes for the company's accumulated earnings to equal the price of the stock, assuming that they grow at the forecasted rate.

Payment Date

The date on which a declared stock dividend is scheduled to be paid.

Payout

The percentage of the company's profits (**EPS**) paid out in cash dividends to shareholders calculated by dividing the dividends per share the EPS, and multiplying your result by 100: $\text{Dividends per Share} / \text{EPS} * 100$.

The remaining EPS not paid in dividends are reinvested in the company. Young, fast-growing companies often have a low payout percentage because they can better use the funds to grow the company. An increasing payout ratio may show that the company is maturing and growing more slowly, so has less need for cash for expansion. If the payout ratio is unusually and overly large (60% or more) the company may be paying out too much dividend. There may be a risk that the dividend will be cut, with a resulting fall in the stock price. Remember that some kinds of companies - such as utilities -- normally have a high payout ratio. *See also:* **Payout Ratio.**

Payout Ratio

The percentage of earnings paid out in dividends, calculated by dividing dividends per share by **Earnings Per Share**. *See also: Payout.*

PE ratio

See Price-Earnings Ratio.

PE ratio to EPS growth

Calculated by dividing a stock's **Price-Earnings Ratio** by its **Earnings Per Share** growth rate. Provides a comparison between the value that the market has put on a company's expected earnings and what the company has actually earned in the past.

Percent Payout

The percentage of the company's profits that are paid out in dividends to shareholders. Calculated by dividing 100 times the dividends per share by the **EPS**: $\text{Dividends per Share} * 100 / \text{EPS}$.

Percent Retained to Common Equity

Also known as **Plowback Ratio**. A Value Line measurement defined as net profit minus **Common** and **Preferred Dividends**, divided by **Common Equity**, expressed as a percentage.

Personal Income

An individual's total earnings derived from wages, passive business enterprises and investments. *See also: Disposable Income; Passive Income; Passive Loss.*

Pink Sheets

A daily publication compiled by the National Quotation Bureau and containing inter-dealer wholesale **Quotations** for over-the-counter stocks.

Plowback Ratio

See Percent Retained to Common Equity.

Portfolio Manager

Also known as **Fund Manager**. The entity responsible for investing a mutual fund's assets, implementing its investment strategy and managing day-to-day portfolio trading.

Position

The amount of a security either owned (a **Long** position) or owed (a **Short** position) by an individual or by a dealer. Dealers take long positions in specific securities to maintain inventories and thereby facilitate trading.

Positive Yield Curve

See Nominal Yield Curve.

Potential Dilution

Any outstanding options, warrants, or convertible debentures that are converted to common shares will dilute the value of those shares.

Potential Average Dividend Yield

Suggests the potential percentage dividend payments, compounded yearly over the next 5 years. Combined with price appreciation, **Yield** makes up the possible total return percentage.

Potential Total Return

Suggests the potential compounded return on your investment over 5 years, based on expected growth of **EPS**. It supposes that you bought the stock at the current price, earned the average dividend yield, and sold at the forecast high price to achieve the potential annual price appreciation.

Preferred Dividends

These dividends are paid at a specified rate to shareholders who have purchased preferred shares. Should the company be in financial difficulty, the preferred shareholders would receive their due before the **Common Shareholders**. Preferred dividends are used as part of the business model method of predicting EPS 5 years into the future.

Preferred Stock

A class of ownership in a corporation with a stated dividend that must be paid before dividends to common stock holders. Preferred shareholders have a claim, prior to common stockholders, on earnings and assets in the event of liquidation. Preferred stock does not usually have voting rights.

Premium

(1) The amount of cash that an option buyer pays to an option seller. (2) The difference between the higher price paid for a security and the security's face amount at issue. *See also:* **Discount**.

Premium Bond

A bond that is valued at more than its face amount.

Present Value

The value today of a future payment or stream of payments, discounted at some appropriate interest rate.

Pre-tax Income

Also may be called **Net Income Before Taxes**, **Income Before Profit**, or **Income Before Taxes**. This is the profit made by the company before paying taxes. It is calculated by dividing the net income by one minus the tax rate: $\text{Net Income} / (1 - \text{tax rate as a decimal})$

Pre-tax Profit on Sales

Also known as **Profit Margin**; **Profitability**. Calculated by dividing the **Pre-tax Income** by **Net Sales**: $(\text{Net Income} / (1 - \text{Tax Rate})) / \text{Revenues}$.

This measures the effectiveness of management in controlling expenses and is a useful measure of overall operational efficiency when compared with prior periods or other companies in the same business. This "return on sales" varies widely between industries (e.g. 2% return for supermarkets is reasonable, but manufacturing industries should return 4-5%). A declining profit margin can be caused by declining sales, declining efficiency, aging plant and equipment, or inappropriate management decisions.

If quarterly pre-tax income is not available, you can estimate the tax rate from the yearly tax rate.

Previous Day's Close

The previous trading day's last reported trade. The Previous Day's Close on the **NASDAQ** web site is updated at 3:30 A.M.

Price-Earnings Ratio

Abbreviated **PE Ratio**. Also known as the **Stock's Multiple**. Calculated by dividing price by **EPS**.

PE represents the amount that investors are willing to pay for each dollar of earnings. The PE value will fluctuate. The higher the PE ratio, the riskier and more volatile the stock. Investors are willing to pay a higher PE for faster growth and potential return.

There are various EPS formulas for PE. A **Trailing PE** uses reported earnings from the last fiscal year. A **Current PE** uses earnings from the current quarter back four quarters. A **Projected or Leading PE** uses earnings forecasted up to a year ahead.

Price Appreciation

Growth from the current price to the forecast high price.

Price-Buy Zone Ratio

A ratio that indicates whether the current price meets the target buy zone set in your analysis. If the Price-Buy Zone Ratio is above 1, the stock is more costly than your target price.

Price Dividend Will Support

A company with a large dividend yield will have substantial price support. A large dividend yield is anything larger than $\frac{1}{2}$ the bank interest rate.

Price-To-Book Ratio

Also known as **Market-to-Book Ratio**. Compares a stock's market value to its book value, calculated by dividing the current price by **Common Stockholders' Equity Per Share** (book value). A lower Price-To-Book Ratio might imply a stock is undervalued.

Price-To-Cash-Flow Ratio

Price per share divided by **Cash Flow Per Share**. A measure of the market's expectations regarding a firm's future financial health. Provides an indication of relative value, similar to the **Price-Earnings Ratio**.

Price-To-Sales Ratio

Calculated by dividing a stock's current price by its revenues per share. This equation is another technique for finding a stock's valuation relative to its own past performance, other companies, or the market itself.

Primary Market

The first opportunity that investors have to buy a newly-issued security occurs in the Primary Market. After the first purchases, subsequent trading is said to occur in the **Secondary Market**.

Prime Rate

The interest rate that commercial banks charge their prime or most creditworthy customers, generally large corporations.

Principal

See Par.

Principal Orders

Refers to activity by a broker/dealer when buying or selling for his or her own account and risk.

Profit Margin

See Pre-tax Profit on Sales.

Profit-Sharing Plan

An employee benefit plan established and maintained by an employer whereby the employees receive a share of the profits of the business. The money may be paid directly to the employee, deferred until retirement, or a combination of both approaches.

Profitability

See Pre-tax Profit on Sales.

Program Trading

Computerized trading used primarily by institutional investors, typically for large volume trades, where orders from the trader's computer are entered directly into the market's computer system and executed automatically.

Projected PE Ratio

Also known as **Leading PE Ratio**. This ratio uses 4 consecutive quarters of EPS, at least one quarter of which is forecasted. The market drives stock prices up or down in anticipation of company results. Using forecasted EPS with the current price gives a

PE which is more balanced with the current market value of the stock. *See also* **Price-Earnings Ratio**.

Prospectus

A formal written statement that discloses the terms of a public offering of a **Security** or a **Mutual Fund**. The prospectus is required to divulge particular essential information to investors about the proposed offering.

Proxy

A formal document signed by a shareholder to authorize another shareholder, or commonly the company's management, to vote the holder's shares at the annual meeting. The Proxy Statement discloses important information about issues to be discussed at an annual meeting, as well as information about closely-held shares.

Put

(1) An option contract giving the owner the right to sell a specified amount of an underlying security at a specified price within a specified time. (2) The act of exercising a put option. *See also*: **Call**.

Put Option

The right to sell stock at a specified (exercise) price within a specified period of time.

Q

Quantitative Analysis

The method of using mathematical models and quantitative values to analyze stocks and financial markets.

Quarterly Sales

Sales for the most recent quarter. Found in the Quarterly Data window.

Quick Ratio

Also known as the **Acid-Test Ratio**. A liquidity measure calculated by subtracting inventories from current assets, then dividing by current liabilities. The Quick Ratio is an indicator of a company's financial strength. A ratio of 1 to 1 or higher is usually satisfactory.

Quotation

Also known as Quote. The current price being offered for a particular stock. *See also:* **Ask; Bid; Bond Quote; Stock Quote.**

Quote

See Quotation.

R

R^2 (R-squared)

Also known as **Coefficient of Correlation**. The result from calculating growth using the **Least Squares Method**, which indicates variability of data to an ideal growth curve. A value of one would indicate a perfect fit and therefore no variability from the ideal. Values vary between zero and one.

Random Walk Theory

A market analysis theory that argues that the past movement or direction of the price of a stock or market cannot be used to predict its future movement or direction.

Range

Also known as the **Opening Range**. A security's low price and high price for a particular trading period, such as the close of a day's trading; the opening of a day's trading; or a day, month, or year.

Rating

An evaluation of a corporate or municipal bond's relative safety, according to the issuer's ability to repay principal and make interest payments. Bonds are rated by various organizations such as **Standard & Poor's** and **Moody's**. Ratings range from AAA or Aaa (the highest) to C or D, which represents a company in default.

Rating Service

A company, such as **Moody's** or **Standard & Poor's**, that rates various debt and preferred stock issues for safety of payment of principal, interest, or dividends. The issuing company or municipality pays a fee for the rating. *See also:* **Bond Rating; Rating.**

Real Estate Investment Trust

Abbreviated **REIT**. REITs sell like stocks on the major exchanges, and invest in real estate either directly through properties or mortgages. REITs receive special tax considerations, and typically offer investors high yields as well as a highly liquid method of investing in real estate.

Real Estate Limited Partnership

A direct participation program formed to build new structures, generate income from existing property, or profit from the capital appreciation of undeveloped land. Growth potential, income distributions, and tax shelter are the most important benefits of such a program.

Real Rate of Return

The annual percentage return realized on an investment, adjusted for changes in the price level due to inflation or deflation.

Receivables

Sales that have been booked by the company but not collected.

Recession

A period of general economic decline that is part of the usual business cycle and generally lasts from six to eighteen months.

Record Date

The date established by a corporation's board of directors that determines which of its stockholders are entitled to receive dividends or rights distributions.

Redemption

The return of an investor's **Principal** in a security, such as a bond, preferred stock or mutual fund shares. By law, redemption of mutual fund shares must occur within seven days of receiving a request for redemption from the investor.

Refunding

Using money from the sale of a new offering to retire an outstanding bond issue at maturity.

Regressive Tax

A tax that takes a larger percentage of the income of low-income people than of high-income people; examples include gasoline tax and cigarette tax. *See also: Progressive Tax.*

Reinvestment

Using dividends, interest, and capital gains earned in a mutual fund investment to purchase additional shares, rather than receiving the distributions in cash. In the case of stocks: using dividends to purchase additional shares instead of receiving payments in cash.

REIT

See Real Estate Investment Trust

Relative Strength

The price performance of a stock compared to the price performance of an appropriate index over the same time period. Calculated by dividing the performance of a stock's price over a period by a market index. Relative strength is a measure of price trend that indicates how a stock is performing relative to other stocks.

Relative Value

The ratio of the current **PE** to the five-year **Average PE**. It measures whether the current value of the stock is less or more than the average value that investors were willing to pay during the last five years.

The current PE is affected by current price and earnings. The average PE depends upon any changes made to average high and low PEs. Attractively valued stocks have a relative value of one or less. A range of about 0.75 to 1.10 may be acceptable. Lower relative values may indicate a risky situation.

Retained Earnings

The earnings retained by a company after payment of all expenses and dividends. Retained earnings grow as they accumulate year after year. They are shown on the company's books as a cumulative amount in the **Balance Sheet** section under **Shareholder Equity**.

Retention Ratio

The percent of earnings retained in the firm for investment purposes. *See also: Retained Earnings.*

Return

The percentage gain or loss for a security in a particular period, consisting of income plus capital gains relative to investment. The **Real Rate of Return** is the annual return realized on that investment, adjusted for changes in the price due to inflation.

Return On Assets

Abbreviated **ROA**. Calculated by dividing a company's annual earnings by its total assets, displayed as a percentage. Useful to indicate how profitable a company is relative to its total assets.

Return on Equity

Abbreviated **ROE**. Also known as **Earned on Equity**. ROE tells how effectively company management is using the shareholders' money to make a profit. This is useful for comparisons among companies.

A simple formula is **Net Income** divided by **Shareholders' Equity**. Generally, the higher the ROE, the more efficient the management and the better the return to shareholders.

It is expected that there will be some variation in the ROE numbers over time. For example, issuing more shares increases shareholders' equity. This causes the return on equity to decline until management can invest the new funds and generate new earnings.

Another decline in the ROE trend can occur when a company relies heavily on debt. If interest expenses rise significantly, net income will likely be reduced. Therefore ROE will be less. Return on equity is a balancing act between careful use of debt and good use of assets.

Return On Investment

Abbreviated **ROI**. The profit or loss resulting from a security transaction, often expressed as an annual percentage rate.

Revenue Bond

A municipal bond supported by the revenue from a specific project, such as a toll road, bridge, or municipal coliseum.

Revenues

Also known as **Sales**. The amount collected for all goods or services sold during the period. Sales are crucial to the success of the company because sales provide the income for operations (although the company may also borrow money). There must be enough sales to support company activities and debt repayment.

Reverse Split

A reduction in the number of a corporation's shares outstanding that increases the par value of its stock or its earnings per share. The market value of the total number of shares remains the same. *See also:* **Stock Split**.

Right

Also known as **Subscription Right**; **Subscription Right Certificate**. A security representing a stockholder's entitlement to the first opportunity to purchase new shares issued by the corporation at a predetermined price (normally less than the current market price). The stockholder's entitlement is in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Risk

Possibility that an investment's actual return will be different than expected; includes the possibility of losing some or all of the original investment. Measured by variability of historical returns, or dispersion of historical returns around their average return.

Risk/Return Trade-Off

The balance an investor must decide on between the desire for low risk and high returns; low levels of uncertainty (low risk) are associated with low potential returns, and high levels of uncertainty (high risk) are associated with high potential returns.

ROA

See Return On Assets.

ROE

See Return On Equity.

ROI

See Return On Investment.

Round Lot

The normal unit of trading of a security, which is generally 100 shares of stock or five bonds. *See also:* **Odd Lot**.

Rule of 72

A formula for approximating the time it will take for a given amount of money to double at a given compound interest rate. Calculated by dividing 72 by the interest rate. To double your money at 6% interest takes 12 years (72 divided by 6% interest = 12).

Rule of 5

Experience in long-term stock investing suggests that of five stocks purchased, one will do better than you expect, three will do as you expect, and one will do worse than you expect.

S

S&P

See Standard & Poor's Corporation.

S&P 500

See Standard & Poor's 500.

S&P Financial Strength

See Standard & Poor's Financial Strength.

Sale

See Sell.

Sales

See Revenues.

Schedule 13D

The form that must be filed by an individual (or individuals acting in concert) after acquiring beneficial ownership of 5% or more of any nonexempt equity security. It must be sent within ten business days to the issuing company, the **Exchange** where the stock is trading, and the **SEC**.

Screening

The process of searching for stocks or funds that fit particular needs in your portfolio.

SEC

See Securities and Exchange Commission.

Secondary Market

A market in which an investor purchases an asset from another investor rather than the issuing corporation. An example is the **New York Stock Exchange**. All stock exchanges are part of the Secondary Market, where investors buy securities from other investors (as opposed to an issuing company). *See also:* **Primary Market**.

Secondary Offering

A sale of securities in which one or more major stockholders in a company sell all or a large portion of their holdings; the underwriting proceeds are paid to the stockholders rather than to the corporation. Typically such an offering occurs when the founder of a business (and perhaps some of the original financial backers) determine that there is more to be gained by going public than by staying private. The offering does not increase the number of shares of stock outstanding.

Sector Fund

Also known as **Industry Fund**; **Specialized Fund**. A **Mutual Fund** whose investment objective is to capitalize on the return potential provided by investing primarily in a particular industry or sector of the economy.

Securities and Exchange Commission

Abbreviated **SEC**. Commission created by Congress to regulate the securities markets and protect investors. It is composed of five commissioners appointed by the president of the United States and approved by the Senate. The SEC enforces, among other acts, the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against fraudulent and manipulative practices in the securities markets. Generally, most issues of securities offered in interstate commerce or through the mails must be registered with the SEC.

Securities Investor Protection Corporation

Abbreviated **SIPC**. A nonprofit membership corporation created by an act of Congress to protect clients of brokerage firms that are forced into bankruptcy. Membership is composed of all brokers and dealers registered under the Securities Exchange Act of 1934, all members of national securities exchanges and most NASD members. SIPC provides customers of these firms up to \$500,000 coverage for cash and securities held by the firms (although coverage of cash is limited to \$100,000).

Security

According to the Securities Exchange Act of 1934, a security is “any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a ‘security’; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker’s acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.”

A simpler definition is that a security is a piece of paper that can be assigned a value and sold, or any investment made with the expectation of a profit.

Security Analyst

See Analyst.

Sell

Also known as **Sale**. To convey ownership of a security or other asset for money or value. This includes giving or delivering a security with or as a bonus for a purchase of securities, a gift of assessable stock, and selling or offering a warrant or right to purchase or subscribe to another security. Not included in the definition is a bona fide pledge or loan, or a stock dividend if nothing of value is given by the stockholders for the dividend.

Selling Short

A bet by an investor that a stock will go down in price. The investor borrows the stock from a broker, sells it, and eventually buys it back on the market and returns the new shares to the broker. If the stock declines in price between the time the investor sells the shares and buys them back, a profit is realized.

Series 7 License

Also known as **The General Securities Registered Representative License**, which entitles the holder to sell all types of securities products with the exception of commodities futures (which requires a Series 3 license). The Series 7 is the most comprehensive of the **NASD** representative licenses, and serves as a prerequisite for most of the NASD's **Principals** examinations.

Series EE Bond

A nonmarketable, interest-bearing U.S. government savings bond issued at a discount from **Par**. Interest on Series EE bonds is exempt from state and local taxes. *See also:* **Series HH Bond**.

Series HH Bond

A nonmarketable, interest-bearing U.S. government savings bond issued at **Par** and purchased only by trading in Series EE bonds at maturity. Interest on Series HH bonds is exempt from state and local taxes. *See also:* **Series EE Bond**.

Settlement Date

For stocks, payment must be made by the third business day after the purchase. This is the Settlement Date.

Share

A certificate representing a single unit of ownership in a corporation.

Share Repurchase

A company's own plan to buy back its own shares from the marketplace, reducing the number of outstanding shares, and typically an indication that the company's management thinks the shares are **Undervalued**.

Shareholders' Equity

Also known as **Equity** and **Net Worth**. The term identifies shareholders' ownership interest in a company. Equity is useful in measuring the performance of a company's management (called **Return on Equity**, abbreviated ROE).

The equity ownership of the company is usually held by two classes of shareholders - **Preferred** and **Common**. It may include preferred and common shares, paid-in capital (capital surplus), **Retained Earnings** (earned surplus), and **Treasury Stock**.

The accounting definition is: all assets on a balance sheet (including intangibles) minus all liabilities (current, non-current liabilities, and long-term debt).

Shares Authorized

The number of shares of stock provided for in the Articles of Incorporation of a company. This figure is usually found in the capital accounts section of the **Balance Sheet** and is usually well in excess of the shares Issued and Outstanding. It can be increased by a vote of the shareholders.

Shelf Offering

An **SEC** provision allowing an issuer to register a new issue security without selling the entire issue at once. The issuer can sell limited portions of the issue over a two-year period without reregistering the security or incurring penalties.

Short

The term used to describe the selling of a security, contract, or commodity not owned by the seller. For example, an investor who borrows shares of stock from a broker-dealer and sells them on the open market is said to have a short position in the stock. *See also: Long.*

Short Interest

The total number of shares of a security that have been sold short by customers and securities firms. *See also:* **Short Selling**.

Short Selling

Short selling is the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short selling is a legitimate trading strategy. Short sellers assume the risk that they will be able to buy the stock at a more favorable price than the price at which they sold short.

Short-Term Debt

All debt due in the next 12 months. This figure is found on the Balance Sheet under current liabilities. *See also:* **Long-Term Debt**.

SIC code

See Standard Industrial Classification Code.

SIPC

See Securities Investor Protection Corporation.

Solvency

The ability of a corporation both to meet its long-term fixed expenses and to have adequate money for long-term expansion and growth.

Specialist

A stock exchange member who stands ready to quote and trade certain securities either for his own account or for customer accounts. The specialist's role is to maintain a fair and orderly market in the stocks for which he is responsible.

Specialized Fund

See Sector Fund.

Speculator

One who trades a commodity or security with a higher than average risk in return for a higher than average profit potential.

Spot Price

The actual price at which a particular commodity can be bought or sold at a specified time and place.

Spread

In a quote, the difference between the **Bid** and the **Ask** prices of a security. The spread for a company's stock is influenced by a number of factors, including supply or "float" (the total number of shares outstanding available to trade); demand or interest in a stock; or total trading activity in the stock. (2) An options position established by purchasing one option and selling another option of the same class, but of a different series.

Standard Industrial Classification Code

Abbreviated SIC Code. A series of 4-digit codes that are used to categorize business activities. A company may operate within several SIC codes.

Standard & Poor's 500 Index

Abbreviated S&P 500. An **Index** of 500 major U.S. corporations. There are 400 industrial firms, 20 transportation firms, 40 utilities, and 40 financial firms. This index is value-weighted.

Standard & Poor's Corporation

Abbreviated S&P. A company that rates stocks and corporate and municipal bonds according to **Risk** profiles, and that produces and tracks the S&P indexes. The company also publishes a variety of financial and investment reports.

Standard & Poor's Financial Strength

Abbreviated S&P Financial Strength. The ranking **S&P** uses to rate the company's growth, quality, and stability of earnings and dividends using 8 levels, from A+ (highest) to B+ (average) to C (lowest) to D (in reorganization).

Stock Dividend

A payment of additional stock to shareholders, rather than a cash dividend. Such payment increases the number of shares held but does not alter a shareholder's proportional investment in the company.

Stock Quote

A list of representative prices that are bid and asked during a particular trading day for a certain stock. Stocks are quoted in points (where one point equals \$1), and 1/8ths of a point, (where 1/8th equals 12.5 cents). Stock quotes are listed in the financial press and most daily newspapers. *See also: Bond Quote.*

Stock Split

Directors of a company may order a stock split to make the shares more affordable for small investors. If a shareholder holds 100 shares at the current share price of \$40, and the stock splits 2 for 1 (2 new for 1 old share), the new share price would be \$20, and the shareholder would then hold 200 shares. In both cases, the total value of all shares would remain at \$4000. All historical per-share items (such as price per share and earnings per share) are adjusted by data providers to account for the stock split. Total sales and net income figures do not change. Stock splits by themselves do not add any value to an investor's portfolio. However, only companies that have experienced growth in their share prices will typically split their shares. *See also: Reverse Split.*

Stock Symbol

Also known as **Ticker Symbol**. A unique symbol assigned to a security. **NYSE** and **AMEX** listed stocks have symbols of three characters or less. **NASDAQ**-listed securities have four or five characters

Stockbroker

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by another individual or firm. (2) The role of a firm when it acts as an agent for a customer and charges the customer a commission for its services.

Stockholders' Equity

See Shareholders' Equity.

Stock's Multiple

See Price-Earnings Ratio.

Stop-Limit Order

An order placed with a broker to buy or sell at a specified price or better after a given stop price has been reached or passed.

Stop-Loss Order

An order placed with a broker to buy or sell when a certain price is reached; designed to limit an investor's loss on a security position.

Stop Order

An order to sell a stock when its price falls to a particular point to limit an investor's losses. *See also:* **Stop-Loss; Stop-Limit Order.**

Stated Yield

See Nominal Yield.

Stated Value

See Par.

Subscription Right

See Right.

Subscription Right Certificate

See Right.

T

T Bill

See Treasury Bill.

T Bond

See Treasury Bond.

T Note

See Treasury Note.

Tax Basis

See Basis.

Taxable Gain

The portion of a sale of a security or distribution of **Mutual Fund** shares that is subject to taxation.

Technical Analysis

A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value. Technical analysts study the price movement and trading volume for stocks by plotting graphs or charts. Using this method, technicians seek to make investment decisions by understanding and predicting investor sentiment and psychology. *See also:* **Fundamental Analysis**.

Tick

A minimum upward or downward movement in the price of a security.

Ticker Symbol

See Stock Symbol.

Today's High

The intra-day high trading price.

Today's Low

The intra-day low trading price.

Top-Down Approach to Investing

A method of investing in which an investor first looks at trends in the general economy, and next selects industries and then companies that should benefit from these trends. *See also:* **Bottom-Up Approach to Investing**.

Total Assets

This denotes the financial framework (capital structure) of a company, including **Long-Term Debt** and all forms of **Equity**. If you are working from a company's **Balance Sheet**, add current assets, property, plant equipment, and "other" assets. The accounting formula is:

$\text{Total Assets} = \text{Total Liabilities} + \text{Shareholders' Equity}$

This formula demonstrates the "balance" in the Balance Sheet.

Total Capital

Gives information about how the company is financed or "capitalized." This can be a combination of stock -- preferred and common shares -- and debt.

Total Debt

Companies may have debt due within one year, as well as long-term debt payable over a longer period of time. The total debt figure includes both kinds of debt. Debt can consist of bonds, debentures, or shorter term bank debt. Bondholders differ from stockholders in that they are lenders. They must receive their interest payments and when their bond comes due, and they will get their principal back.

Total Debt to Total Assets

Calculated by adding **Short-Term** and **Long-Term Debt**, then dividing by a company's **Total Assets**. Used to measure a company's financial risk, determining how much of the company's assets have been financed by debt.

Total Return

The compounded annual return on an investment, including price appreciation and dividends or interest.

Total Revenue

Total sales and other revenue for a particular period.

Trade

A transaction involving the sale and purchase of a security.

Trade Date

The date on which a security trade occurs.

Trading Halt

A pause in the trading of a particular security on one or more exchanges, usually in anticipation of a news announcement or to correct an order imbalance. During a trading halt, open orders may be canceled, and options may be exercised. A trading halt gives all investors equal opportunity to evaluate news and make buy, sell, or hold decisions on that basis. A trading halt may also be imposed for purely regulatory reasons.

Trading Range

The **Spread** between the high and low prices traded during a period of time.

Trailing PE Ratio

Also called **Lagging PE Ratio**. The **Price-Earnings Ratio** based on actual **EPS** over the last 4 quarters.

Transaction Costs

Costs incurred buying or selling securities. These include brokers' commissions and dealers' **Spreads** (the difference between the price the dealer paid for a security and for which he can sell it).

Treasury Bill

A marketable U.S. government debt security with a maturity of less than one year. Treasury bills are issued through a competitive bidding process at a discount from par; there is no fixed interest rate. Also known as T bill.

Treasury Bond

Also known as **T Bond**. A marketable, fixed-interest U.S. government debt security with a maturity of more than ten years.

Treasury Note

Also known as **T Note**. A marketable, fixed-interest U.S. government debt security with a maturity of between one and ten years.

Treasury Stock

Shares which have been repurchased from shareholders. The stock is held in the treasury and is listed on the company's **Balance Sheet**. It is available for retirement or resale. It is issued but not outstanding.

Trend Line

A line through the historical plot of data for a company's **EPS** or **Revenues**, in order to estimate the historical percentage of growth.

Turnover

The number of times a given **Asset** (such as **Inventory**) is replaced during an accounting period, usually a year.

U

Undervalued

A stock selling below the liquidation value or the market value that analysts believe it deserves. **Fundamental Analysts** try to spot such companies to buy them before they become fully valued. For example, a stock may be undervalued because the industry is out of favor, or because the company is not well known or has an erratic history of earnings.

Underwriting

The procedure by which investment bankers raise investment capital from investors on behalf of corporations and municipalities that are issuing securities.

Unit Value

(1) In terms of **Mutual Funds**, members buy shares of the fund that are worth a specified amount - the unit value - and that amount changes proportionally with the success or failure of the stocks in the mutual fund. This ensures that each member's share in the success or failure of the stocks is proportionate to their investment. (2) In terms of **Investment Clubs**, a method of distributing earnings or sharing in losses, proportional to members investment, is to designate a unit value that allows members to choose how much they wish to invest. Each unit value is proportionally affected by the success or failure of the club's chosen stocks. This way, members can invest different amounts in the club without having to share equally in the earnings or losses.

Unrestricted Order

See Market Order.

Unearned Income

Income derived from investments and other sources not related to employment services. Examples of unearned income include interest from a savings account, bond interest, and dividends from stock. See also: **Earned Income**; **Passive Income**.

Upside/Downside Ratio

The ratio of the potential gain to the risk of loss. This is based on the potential gain from the current price rising to the forecasted high price compared to the potential loss from the current price dropping to the estimated low price. An upside/downside minimum ratio of 3 to 1 is recommended for long-term investments.

V

Valuation

The process of determining the current worth of an **Asset** or **Security**.

Value Line Financial Strength

A ranking assigned by the Value Line Investment Survey which rates companies in ten categories according to their financial strength, from A+ (excellent) to C (poorest).

Value Line Safety

A ranking assigned by the Value Line Investment Survey which assesses a company's financial strength and measures the total risk of investing in the stock. The ranking ranges from 1 to 5, with 1 the highest, 3 is average, and 5 is lowest.

Variable Annuity

An insurance contract in which the insurance company guarantees a minimum total payment to the annuitant at the end of the accumulation stage. The performance of a

separate account, generally invested in equity securities, determines the amount of this total payment. *See also:* **Fixed Annuity**.

Volume

The number of shares of a single security or an entire market that are trading in a period (commonly reported for a single trading day).

Voting Right

The right of a stockholder to vote for members of the board of directors and on matters of corporate policy - particularly the issuance of senior securities, **Stock Splits**, and substantial changes in the corporation's business. A variation of this right is extended to variable annuity contract holders and mutual fund shareholders, who may vote on material policy issues.

W

Warrant

A security that gives the holder the right to purchase securities from the issuer of the warrant at a stipulated subscription price. Warrants are usually long-term instruments, with expiration dates years in the future.

Weighted Average

An average in which each number to be averaged is assigned a weight that determines the relative importance of each figure on the overall average. Weighted averages are often used to assign greater weight to more recent data, on the assumption that older data may be less applicable to current conditions.

Working Capital

Also known as net working capital. It is calculated by subtracting current liabilities from current assets. If a company's current assets do not exceed its current liabilities, then it may be unable to meet its short-term liabilities with its current assets (such as cash, accounts receivable, and inventory).

X - Y - Z

Yield

(1) The amount of interest paid on a bond or stock divided by the price; a measure of the income generated by the security. (2) The rate of return on an investment, usually expressed as an annual percentage rate. A yield is not a total return measure because it does not include capital gains or losses. *See also:* **Current Yield**; **Dividend Yield**; **Nominal Yield**.

Yield Curve

A graphic representation of a curve that shows **Interest Rates** at a specific point for all securities having equal risk but different maturity dates. Usually, government securities are used to construct such curves. *See also:* **Flat Yield Curve**; **Inverted Yield Curve**; **Normal Yield Curve**.

Yield to Maturity

The rate of return anticipated on a bond if it is held until the **Maturity Date**.

Zero-Coupon Bond

A corporate or municipal debt security traded at a deep discount from face value. The bond pays no interest; rather, it may be redeemed at maturity for its full face value. It may be issued at a discount, or it may be stripped of its coupons and repackaged.

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