



# Equity & Equity Markets

## A Glossary of Terms

No.	Terms	Description
1	<b>American Depository Receipt (ADR)</b>	A stock representing a specified number of shares in a foreign corporation. ADR's are bought and sold in the American markets just like regular stocks. An ADR is issued by a U.S. Bank, consisting of a bundle of shares of a foreign corporation that are being held in custody overseas. The foreign entity must provide financial information to the sponsor bank. ADR's are listed on NYSE, AMEX, or NASDAQ.
2	<b>Bears</b>	These stock market animals are pessimists; they expect share prices or any other type of investment to fall. In a 'bear market' the general sentiment is that prices are going to go lower and majority of dealers will sell as quickly as possible for fear of holding shares which diminish in value. Bears, like 'bulls' drive the market.
3	<b>Bear Market</b>	A prolonged period of falling securities prices in a stock market.
4	<b>Book Closure</b>	Dates between which a company keeps its register of members closed for updating prior to payment of dividends or issue of new shares or debentures.
5	<b>Bull</b>	A bull is one who expects a rise in price so that he can later sell at a higher price.
6	<b>Bull Market</b>	A rising market with abundance of buyers and few sellers.
7	<b>Base Price</b>	This is the price of a security at the beginning of the trading day which is used to determine the Day Minimum/Maximum and the Operational ranges for that day.
8	<b>Buyer</b>	The trading member who has placed the order for the purchase of the securities.
9	<b>Basket Trading</b>	Basket trading is a facility by which investors are in a position to buy/sell all 30 scrips of Sensex in the proportion of current weights in the Sensex, in one go.
10	<b>Buy limit order</b>	An order of buying a security with a condition that order will not be executed above the specific mentioned price.
11	<b>Buy on close</b>	An order of buying a stock, but only at the end of the trading day. Security will be bought in the closing price range.
12	<b>Breakout</b>	When the price of a stock surpasses its initial high (resistance level) or falls below the initial low (support level), it is termed as break out in technical analysis.
13	<b>Book runner</b>	Institution that arranges and manages the book building process for the new public issue.
14	<b>Beneficial owner</b>	The actual owner of the security, irrespective of who is holding the security.
15	<b>Best ask</b>	The lowest price at which a stock is quoted to be sold.

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16	<b>Best bid</b>	The highest price quoted for a particular stock to be bought.
17	<b>Bid/Ask spread</b>	The difference between the ask price and bid price.
18	<b>Cash Settlement</b>	Payment for transactions on the due date as distinct from carry forward (Badla) from one settlement period to the next.
19	<b>Clearing House</b>	Each Exchange maintains a clearing house to act as the central agency for effecting delivery and settlement of contracts between all members. The days on which members pay or receive the amounts due to them are called pay-in or pay-out days respectively.
20	<b>Correction</b>	Temporary reversal of trend in share prices. This could be a reaction (a decrease following a consistent rise in prices) or a rally (an increase following a consistent fall in prices).
21	<b>Cum</b>	Means "with". A cum price includes the right to any recently declared dividend (CD) or right share (CR) or bonus share (CB).
22	<b>Closing Price</b>	The trade price of a security at the end of a trading day. Based on the closing price of the security, the base price at the beginning of the next trading day is calculated.
23	<b>Counterparty</b>	When a trading member enters an order, any other trading member with an order on the opposite side is referred to as the counterparty.
24	<b>Capital Gain</b>	The amount by which an investment's selling price exceeds its purchase price.
25	<b>Capital Market</b>	A market where debt or equity securities are traded.
26	<b>Commission</b>	A fee charged by a broker or distributor for his/her service in facilitating a transaction.
27	<b>Contract</b>	On any securities market this is the agreement between a buyer and a seller to buy or sell securities. The written agreement between the seller and the buyer to transfer ownership of the property from the former to the latter. It is a legally binding agreement for sale. In two identical parts, one signed by seller and one by purchaser. When the two parts are exchanged (exchange of contracts) both parties are committed to the transaction.
28	<b>Cum-bonus</b>	The share is described as cum-bonus when a potential purchaser is entitled to receive the current bonus.
29	<b>Cum-rights</b>	The share is described as cum-rights when a potential purchaser is entitled to receive the current rights.
30	<b>Capital loss</b>	The negative difference between the selling price of the stock and purchase price of the stock.
31	<b>Capital Asset Pricing Model (CAPM)</b>	A model describing the relationship between risk and expected return, and serves as a model for the pricing of risky securities. CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat required return then the investment should not be undertaken.

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32	<b>Circuit breaker</b>	When a stock price increases or decreases by a certain percentage in a single day it hits the circuit breaker. Once the stock hits the circuit breaker, trading in the stock above (or below) that price is not allowed for that particular day.
33	<b>Custodial fees</b>	The fees charged by the custodian for keeping the securities.
34	<b>Cumulative preference share</b>	Preference shares whose dividends will get accumulated, if the issuer does not make timely dividend payments.
35	<b>Convertible preference shares</b>	Preference shares that can be converted into equity shares at the option of the holder.
36	<b>Counter-party risk</b>	It is the risk that the other party to a contract may not fulfill the terms of a contract.
37	<b>Dividend</b>	This is the income you receive as a shareholder from a company. When you buy an ordinary share in a company, you become a shareholder (an owner of the business) and to that extent you will have certain entitlements including the right to receive dividend payments as set by the board of directors and approved by the shareholders (sometimes called members.) A dividend is a cut of the profits earned by the business for the year. This pay-out is not guaranteed and where it exists at all, the amount you'll receive will vary from company to company and year to year.
38	<b>Delivery</b>	A transaction may be for "spot delivery" (delivery and payment on the same or next day) "hand-delivery" (delivery and payment on the date stipulated by the exchange, normally within two weeks of the contract date), special delivery (delivery and payment beyond fourteen days limit subject to the exact date being specified at the time of contract and authorized by the exchange) or "clearing" (clearance and settlement through the clearing house).
39	<b>Day Minimum/ Maximum range</b>	The minimum/maximum price range for a security on a trading day. Buy orders outside the Maximum of the range and sell orders outside the Minimum of the range are not allowed to be entered into the system. It is calculated as a percentage of the Base price.
40	<b>Day order</b>	A day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, at the end of the trading day the order gets cancelled automatically
41	<b>Dealer</b>	A user belonging to a Trading Member. Dealers can participate in the market on behalf of the Trading Member.
42	<b>Disclosed Quantity (DQ)</b>	A dealer can enter such an order in the system wherein only a fraction of the order quantity is disclosed to the market. If an order has an undisclosed quantity, then it trades in quantities of the disclosed quantity.
43	<b>Demat trading</b>	Demat trading is trading of shares that are in the electronic form or dematerialised shares. Dematerialisation is the process by which shares in the physical form are cancelled and credit in the form of electronic balances are maintained on highly secure systems at the depository
44	<b>Discounted payback period</b>	Period in which future discounted cash in- flows equal the initial outflow.

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45	<b>Discount factor</b>	Expected rate of return by which, future cash flows are deflated. The discount rate is annual rate and deflating future cash flow takes place in a compounded manner.
46	<b>Downgrade</b>	Refers to lowering of ratings for a share by analysts, intermediaries or investors.
47	<b>Ex-bonus</b>	The share is described as ex-bonus when a potential purchaser is not entitled to receive the current bonus, the right to which remains with the seller.
48	<b>Ex-rights</b>	The share is described as ex-rights when a potential purchaser is not entitled to receive the current rights, the right of which remains with the seller.
49	<b>Earnings Per Share (EPS)</b>	It is the most important measure of how well (or otherwise) the board of directors are doing for the shareholders. This measure expresses how much the company is earning for every share held. The calculation is 'pre-tax profit dividend by the number of shares in issue'. An earnings per share is more important than the overall reported profit figure. The reason is that EPS provides a more pure measure of profitability.
50	<b>Ex Dividend</b>	This is a share sold without the right to receive the declared dividend payment which is marked as due to those shareholders who are on the share register at a pre-announced date. The stock market authorities usually specify the date on which a share will begin trading ex div. The share price invariably drops when the share goes ex dividend, taking the known income of the dividend out of the share price.
51	<b>ESOP</b>	Employee Stock Option Plan is a trust established by a company to allot some of its paid-up equity capital to its employees over a period of time. They are used to reward employees.
52	<b>Exercise price</b>	The pre-determined price at which the underlying future or options contract may be bought or sold.
53	<b>Exercising the option</b>	The act of buying or selling the underlying asset via the option contract.
54	<b>Good till Cancelled (GTC) orders</b>	A Good Till Cancelled (GTC) order remains in the system until it is cancelled by the user. It will therefore be able to span trading days if it does not get matched. The Exchange may however set an upper limit to the number of working days an order can stay in the trading system. At the end of this period, GTC orders are cancelled automatically from the system.
55	<b>Good till Date (GTD) orders</b>	A Good Till Day (GTD) order allows the user to specify the number of days up to which the order should stay in the trading system. At the end of this period, the order gets flushed out from the system if it is not traded or is not cancelled by the trading member.
56	<b>Global Depository Receipt (GDR)</b>	These are negotiable certificates which prove ownership of a company's shares. They are marketed internationally, mainly to financial institutions. GDRs allow purchasers to gain exposure to companies which are listed on foreign markets without having to purchase the shares directly in the market in which they are listed.
57	<b>Hedging</b>	Offsetting or guarding against investment risk. A perfect hedge is a no-risk-no gain precaution. A conservative strategy for reduction of risk through futures, options or some other derivative, by opening an opposite position to that already held in the underlying market. Taking positions in securities so that each offsets the other.

No.	Terms	Description
58	<b>Insider trading</b>	Trading on information which is not really available to the general public. Trading in a Company's shares by a connected person having non-public, price sensitive information, such as expansion plans, financial results, takeover bids, etc., by virtue of his association with that Company, is called insider trading.
59	<b>Illiquid</b>	An investment is said to be illiquid if it cannot easily be turned back into cash quickly and at a low cost. Shares in smaller companies are more likely to be illiquid than those in larger companies; they will be less easy to sell and you are likely to find that the spread or difference between the buying and selling price is much wider. So, in other words blue chip shares are more liquid than unquoted companies.
60	<b>Insider</b>	Someone who trades a security on the back of knowledge which is not available to the world at large and who, thereby, makes a profit.
61	<b>Immediate or Cancel (IOC)</b>	An Immediate or Cancel (IOC) order allows a user to buy or sell a security as soon as the order is released into the market, failing which the order is removed from the market. There could be a partial match for such an order resulting in one or more trades, in which case the balance order will be removed from the market.
62	<b>Listed Company</b>	A public limited company which satisfies certain listings conditions and signs a listing agreement with the stock exchange for trading in its securities.
63	<b>Limit order</b>	Is an order for which the price (limit price) has been specified at the time of making the order entry. A limit order describes the instruction an investor gives to his broker setting out how much he's prepared to pay for shares (or any other asset for that matter).
64	<b>Market lot</b>	Market lot is the minimum number of shares of a particular security that must be transacted on the Exchange. Multiples of the market lot may also be transacted.
65	<b>Market capitalization</b>	Market capitalization is the market value of the equity of a company. Simply put, it is the number of outstanding shares multiplied by the market price of the company. It is the total market value at the current stock exchange list prices of the total number of equity shares issued by company. It is also the currency which can be used in case of acquisitions (in terms of stock swaps).
66	<b>Margin</b>	The amount a buyer/seller of a futures contract or an uncovered (naked) option seller (writer) is required to deposit and maintain to cover his daily position valuation and reasonably foreseeable intraday price changes.
67	<b>Nominal Value</b>	The nominal value is the face value of share. If the face value of a share is Rs. 10 then it may also be stated that its nominal value is Rs. 10.
68	<b>Order</b>	A buy or a sell offer/bid for any of the Capital Market securities entered by the dealer in the system. The system generates a unique order number for each order entry.
69	<b>Pari Passu</b>	This is a Latin term and it means, "Having equal rights". When shares (bonus or otherwise) are issued pari passu with existing shares it means that the new shares would be equal to and have identical rights with the existing shares.

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70	<b>Premium</b>	The price of an option (call or put) contract, determined in the competitive market place, which the buyer (holder) of the option pays to its seller (writer) for the rights granted to the former by the option contract.
71	<b>Pre-Open</b>	A time period in the trading day for the Normal market. Trading members are allowed to enter orders during this period. These orders in the system take part in the algorithm for the calculation of the opening price during this period.
72	<b>Price Time Priority</b>	All orders received on the system are sorted with the best priced order getting the first priority for matching i.e. the best buy order matches the best sell order. Within similar priced orders, they are sorted on time i.e. the one that came in early gets priority over the later one.
73	<b>Price band</b>	Price bands set the upper and lower limit within which a security price can fluctuate on a given day/settlement. In case of intra-day, the price band is determined over the closing price of the previous day and in the case of intra-settlement, the price bands are determined over the closing price of the last day of the previous settlement cycle. Orders outside these price bands will not be executed by the system.
74	<b>Price rigging</b>	When persons acting in concert with each other collude to artificially increase or decrease the prices of a security, that process is called price rigging.
75	<b>Portfolio</b>	The entire collection of investments belonging to an investor or held by a financial organization such as a bank, pension fund or investment trust. The idea of a portfolio is that you should invest in a diversified selection of investments.
76	<b>Price sensitive information</b>	Price sensitive information is information about a company's trading or other affairs which would, if generally known, be expected to have an influence on its share price.
77	<b>Record date</b>	Record date is the date on which the beneficial ownership of an investor is entered into the register of members. Such a member is entitled to get all the corporate benefits.
78	<b>Rights Issues</b>	The issues of new shares to existing shareholders in a fixed ratio to those already held at a price which is generally below the market price of the old shares. These are the relatively rare occasions in a company's life when it will create new shares, the proceeds of which will go directly into its bank account, instead of giving a profit (or a loss) to an existing shareholder. The issue of additional equity shares to the existing shareholders is on a pre-emptive basis. Typically, the subscription price of a rights issue is significantly below the market price of the old shares.
79	<b>Real Return</b>	The rate return earned on an investment after adjusting for the rate of inflation.
80	<b>Real Interest Rate</b>	Current interest rate less the rate of inflation.
81	<b>Short Position</b>	A position in which a person's interest in a particular series of options is as a net seller (writer) meaning that the number of contracts sold exceeds the number of contracts bought. It is similar in case of futures contracts.
82	<b>Spot</b>	Spot purchase or sale implies that the deal is for immediate cash and the shares are to be delivered immediately.
83	<b>Spreads</b>	Options and futures transactions involving two or more series of the underlying asset.

84	<b>Settlement Day</b>	The day on which bought securities are due for delivery to the buyer and the appropriate consideration to the seller.
85	<b>Security</b>	A Security is a valid and unique combination of Symbol and Series. Securities are traded in the Capital Market. Shares and Debentures are some examples of securities.
86	<b>Seller</b>	The trading member who has placed the order for selling the security.
87	<b>Spot market</b>	Orders that have spot settlement are entered into the Spot market.
88	<b>Stop Loss</b>	The dealer can enter a regular lot or a special term order with a 'trigger' price. Such orders are called Stop Loss orders. The stop loss orders are not taken for matching unless the trigger price is either reached or if it is surpassed by the last traded price for the security. Once the market price reaches or surpasses the trigger price, the 'stop loss' attribute is removed and the order is taken up for regular matching process.
89	<b>Share swap</b>	An arrangement by which shares of one company are swapped for another in a specified ratio
90	<b>Stock option</b>	An option given to a person to buy stock at a predetermined price at a future date
91	<b>Stock split</b>	Splits are about as exciting as getting change for a Rs100 note. Depending upon the split ratio one share of a company is split into the decided number. This is done by reducing the face value of the scrip. Stock splits are expected to improve liquidity in a stock.
92	<b>Trade</b>	When a buy order matches with a sell order following the price-time priority logic, a trade takes place. The system generates a unique trade number for each trade.
93	<b>Turnover Limit</b>	This indicates the aggregate trade value limit on a daily basis set for a trading member. The Exchange sets the limit for each trading member of the Capital Market. The trade value for both buy and sell for a day are accumulated and the total is checked against this upper limit after every potential trade match.
94	<b>Unquoted Shares</b>	Shares in some companies, often smaller ones, are not traded on any stock exchange. Companies are not quoted (or listed) because either: they do not wish to be and prefer to run their businesses in relative privacy, or They do not meet the listing requirements, such as minimum market capitalization. In other words they are too small to join a stockmarket.
95	<b>Underwrite</b>	Under writing is effectively a guarantee wherein the underwriter (usually a bank, broker or financial institution) agrees to purchase a certain number of shares in the event the issue is under-subscribed for a certain fee.
96	<b>Volume of Trading</b>	The total number of shares which change hands in a particular company's securities.

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