Raymond A. Mason School of Business
WILLIAM & MARY

THE BOEHLY CENTER
FOR EXCELLENCE IN FINANCE

Wall Street Jargon
Cheat Sheet

"The Street": Wall Street in New York City forms the center of its financial district; NYSE, NASDAQ, and American Stock Exchange, among others, are headquartered on Wall Street.

Asset: Resource with economic value that a corporation owns or controls with the expectation that it will provide a future benefit; Assets are reported on a company's balance sheet and are bought or created to increase a firm's value or benefit the firm's operations.

- **Asset Allocation** is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon. The three main asset classes – equities, fixed-income, and cash and equivalents – have different levels of risk and return.

Bond: Fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental); Used by companies, states, and governments to finance projects and operations.

Book Building: Process by which an underwriter attempts to determine the price at which an initial public offering (IPO) will be offered.

- An underwriter, normally an investment bank, builds a book by inviting institutional investors (such as fund managers and others) to submit bids for the number of shares and the price(s) they would be willing to pay for them.

Book Value: of an investment is the price paid for a security or debt investment. When a company sells stock, the selling price minus the book value is the capital gain or loss from the investment.

Broker: Individual or firm that acts as an intermediary between an investor and a securities exchange; Buy and sell financial instruments on the behalf of a client and charges a fee for doing so.

Bull and Bear Markets:

- A **Bull Market** is a market that is on the rise and where the economy is sound. (Tip: A bull charges "up" with horns.)
- A **Bear Market** exists in an economy that is receding, where most stocks are declining in value. (Tip: A bear charges "down" with paws.)

Buying Size: occurs when a trader offers to buy a large volume of shares

Buy-Side/Sell-Side:

- **Buy-Side** is the side of the financial market that buys and invests large portions of securities for the purpose of money or fund management; Includes investment managers, pension funds, and hedge funds.
- **Sell-Side** is the other side of the financial market, which deals with the creation, promotion, and selling of traded securities to the public; Includes investment banks, advisory firms, and corporations.

Capital Gains/ Capital Loss:

- **Capital Gain** is the profit one earns on the sale of an asset like stocks, bonds or real estate; Capital gain is the result when the selling price of an asset exceeds its purchase price.
- **Capital Loss** is the loss that is incurred when the investment is sold; Capital loss is the result when the selling price of an asset is less than its purchase price.

Cash out: occurs when a firm runs out of cash and cannot readily sell marketable securities to raise cash; Firm must resort to borrowing.

Crowding Out: occurs when higher government spending fails to increase overall aggregate demand because higher government spending causes an equivalent fall in private sector spending and investment; Suggests rising public sector spending drives down private sector spending.

Dow Jones Index: Stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States.

Equity: Represents the shareholders' stake in a company, identified on a company's balance sheet; The calculation of equity is a company's total assets minus its total liabilities.

Escrow: Financial arrangement where a third party holds and regulates payment of the funds required for two parties involved in a given transaction; Helps make transactions more secure by keeping the payment in a secure escrow account which is only released when all of the terms of an agreement are met as overseen by the escrow company.

Fallen angel: A bond that was initially given an investment-grade rating but has since been reduced to junk bond status; Downgrade is caused by a deterioration in the financial condition of the issuer.

FICO Score: Credit score created by the Fair Isaac Corporation (FICO); Lenders use borrowers' FICO scores along with other details on borrowers' credit reports to assess credit risk and determine whether to extend credit.

Financial Industry Regulatory Authority (FINRA): Independent, nongovernmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States; Both firms and individuals must be registered with FINRA to conduct securities transactions and business with the investing public.

- To become registered, securities professionals are required to pass qualification exams to demonstrate competence in their particular securities activities

<u>Hedge:</u> Investment position intended to offset potential losses or gains that may be incurred by a companion investment.

- <u>Hedging</u> against investment risk means strategically using financial instruments or market strategies to offset the risk of any adverse price movements.

<u>Hunting Elephants:</u> Practice of targeting large companies or customers to sell a good or service, as well as targeting large companies for acquisition.

<u>Leverage/Levering Up:</u> To increase the portion of debt in a firm's capital structure by issuing debt and using the proceeds to repurchase stock or by financing any new expansion through debt; Refers to the amount of debt a firm uses to finance assets.

<u>Liabilities:</u> Contractual obligations to pay cash or deliver other financial assets to other entities as a result of past transactions.

- Examples of <u>Financial Liabilities</u> include amounts payable for received goods or services, loans and interest, received prepayments for financial assets on sale.

<u>Liquidity:</u> refers to how easily a company's assets can be converted into cash.

- Assets like stocks and bonds are very liquid since they can be converted to cash within days; Large assets such as property, plant, and equipment are not as easily converted to cash.

<u>Loan:</u> Credit type in which a sum of money is lent to another party in exchange for future repayment of the value or principal amount; Lender typically also adds interest and/or finance charges to the principal value which the borrower must repay in addition to the principal balance.

<u>Long/Short Squeeze:</u>

- **Long Squeeze** occurs when a sudden drop in price of a stock or other asset incites further selling, pressuring long holders of the stock into selling their shares to protect against a dramatic loss.
- **Short Squeeze** occurs when a stock or other asset jumps sharply higher, forcing traders who had bet that its price would fall, to buy it in order to forestall even greater losses; A short squeeze accelerates a stock's price rise as short-sellers bail out to cut their losses.

<u>Nasdaq:</u> Stock market index that measures the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange; Nasdaq is also an exchange where investors can buy and sell stocks.

<u>Net worth:</u> Value of the assets a person or corporation owns, minus the liabilities they owe

- <u>Net worth</u> is an important metric to gauge a company's health, providing a useful snapshot of its current financial position.

<u>Passive/Active Management:</u>

- **Passive Management** is an investing strategy that tracks a market-weighted index or portfolio; Strategy of an investment fund of following a benchmark index to replicate the performance of the index or the broader market.
- **Active Management** is a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index or target return; Focused on outperforming the market.

Real Estate Investment Trust (REIT): Companies that own, operate or finance income-producing real estate across a range of property sectors; Stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy, manage or finance property.

Rebalancing: Process of realigning the weightings of a portfolio of assets; Involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.

S&P 500: Stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States; One of the most commonly followed equity indices.

Securities and Exchange Commission (SEC): Independent federal regulatory agency tasked with protecting investors and capital, overseeing the stock market and proposing and enforcing federal securities laws.

Short Interest: Number of shares that have been sold short but have not yet been covered or closed out; Indicates the overall attitude of investors toward a particular security or financial market.

- An increase in short interest signals that investors have become more bearish, while a decrease in short interest signals they have become more bullish.

Stock: A single share of stock is a security that represents fractional ownership of the corporation in proportion to the total number of shares.

- This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own.
- Stocks are bought and sold predominantly on stock exchanges and are the foundation of many individual investors' portfolios.

Upside/Downside:

- **Upside** refers to the potential increase in value, measured in monetary or percentage terms, of an investment.
- **Downside** describes the negative movement of an economy, or the price of a security, sector, or market.
- The **Upside/Downside ratio** is a market breadth indicator that shows the relationship between the volumes of advancing and declining issues on an exchange; Investors typically use the indicator to determine the momentum of the market at any given time.

Valuation: Analytical process of determining the current (or projected) worth of an asset or a company; Analysts placing value on a company look at the business's management, the composition of its capital structure, the prospect of future earnings, and the market values of its assets.

Vesting: Process by which an employee with a qualified retirement plan and/or stock option becomes entitled to the benefits of ownership, even if he/she no longer works at the company.

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