

Youth Sustainable Investment Challenge™

Glossary

In this guide, you will find the “must know” investment terms (and their explanations) related to the financial market.

- A -

Alpha

Alpha is used to gauge the success of an investment strategy, portfolio, portfolio manager, or trader compared with a relevant benchmark. You may also hear alpha defined as “excess return” in that it refers to returns that can be attributed to active management, over and above market returns.

Assets

An asset is anything that holds value that can be converted to cash. Personal assets might include your home, a car, other valuables. Business assets might include machinery, patents. When it comes to investing, assets are typically the securities you invest in.

- B -

Beta

Beta refers to how risky or volatile a security or portfolio is compared with the market overall. Calculating the beta of the stocks in your portfolio can help you determine how your portfolio might respond to market volatility. You can also gauge the beta of a stock to help determine how much risk it might add to your portfolio.

Bear Market

A bear market occurs when the market declines, typically when broad market indexes fall 20% or more in two months or less. Bear markets can accompany a

recession, but not always. They often signal that investors feel pessimistic about their investments' ability to make money and the market's ability to rebound.

Bull Market

A bull market is the opposite of a bear market, meaning prices are rising or are expected to rise for extended periods of time. Bull markets usually mean security prices are rising for months or even years at a time.

Blue Chip Stocks

Blue chip companies are generally thought to be well-established, financially sound, and therefore high-quality investments. [Blue chip stocks](#) are typically large companies, and many of them are household names. In some cases, blue chips may be more expensive to invest in since they can be considered relatively stable and likely to grow.

Bonds

When governments or corporations need to borrow money they issue bonds. Investors who buy the bonds are effectively loaning that entity cash, which will be repaid according to the terms of the bond (e.g. a 10-year bond with an interest rate of 3%). Bonds are often considered to be relatively stable, lower-risk investments compared with stocks.

Benchmark

The standard to which the performance of a stock, bond or other investment can be referenced.

Bullish

Bull markets are characterized by rising market prices. To be bullish on growth is to be optimistic of continued growth and considering a particular investment as potentially profitable.

Bureau of Labor Statistics (BLS)

A government agency within the U.S. Department of Labor that researches and releases data regarding consumer spending, employment, inflation, productivity, wages and other economic indicators. These reports often considerably impact market sentiment.

- C -

Cost of trading (commission)

It is the cost (commission) incurred by traders in the market when executing orders.

Cap Ex

Capital Expenditures are funds used by a company to purchase or upgrade physical assets such as property or equipment necessary for the company to run.

Cash Flow

The amount of dollars received from an investment during a specified period of time.

Consumer Discretionary Sector

One of 10 economic sectors that comprises the S&P 500 Index and serves as a gauge for the general health and performance of the underlying industries. The consumer discretionary sector includes the following industries: advertising, autos and auto parts, broadcasting and cable, general merchandise, hotels, movies and entertainment, publishing and printers, restaurants and retail.

Consumer Staples

Products that are essential to consumers. Examples include household goods, food, beverages and tobacco. Because consumers view these products as essential, they purchase them regardless of the state of the economy. As a result, they are considered a consistent investment platform for investors.

Consumer Price Index (CPI)

measures prices of a fixed basket of goods bought by a typical consumer. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, and to measure and gauge inflation. Economists also look at the CPI excluding volatile food and energy components that they call the “core” CPI.

Corporate Bond

A debt instrument issued by a corporation to raise money effectively in order to expand its business. The term “corporate bonds” tend to refer to longer-term debt

with a maturity date falling at least one year after the issue date. “Commercial paper” typically refers to debt with a short maturity.

Correlation

Correlation is the statistical measure of how two securities move in relation to one another.

- D -

Diversification

You’ve probably heard that you should aim to have a diversified portfolio. That means investing in a range of asset classes that are likely to behave differently under different market conditions, in order to mitigate risk. A portfolio of only stocks, for instance, could be more vulnerable to market volatility than a portfolio that also included bonds, real estate, commodities, and so on.

Dividends

When a company shares their profits with investors, these are called dividends. Dividends are often paid in cash (although they can be paid in stocks). Some companies — e.g. many blue chip firms — pay dividends, but not all companies do. Ordinary dividends are taxed differently than qualified dividends, so you may want to consult a tax professional if you own dividend-paying stocks.

- E -

Economic Moat

The competitive advantage that one company has over other companies in the same industry. This term was coined by renowned investor Warren Buffett.

Equity

The total of all stock owned and earnings retained that belong to the owners

Equity Value

Intrinsic value of equity that is found by subtracting total debt from firm value

EBITDA

EBITDA is a way to evaluate a company’s performance that is considered more precise than simply looking at net income. EBITDA stands for: earnings before

interest, taxes, depreciation, and amortization. To calculate EBITDA, use the following formula: $\text{Net Income} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}$.

EBIT

EBIT is a simpler way to calculate a company's profits than EBITDA, as it's only one part of the EBITDA equation (literally!). It stands for "earnings before interest and taxes." It's calculated using this formula: $\text{Net Income} + \text{Interest} + \text{Taxes}$.

EPS

EPS stands for earnings per share, which is a common way investors measure how well a stock is performing. EPS is calculated by finding a company's quarterly or annual net income and dividing it by the company's outstanding shares of stock. Increases in EPS can be a sign that the company's profit performance is on the upswing, whereas a decrease can be a red flag for investors.

ETF

Exchange-traded funds, or ETFs, are similar to mutual funds in that the fund's portfolio can include dozens or even hundreds of different securities, and investors buy shares of the fund. Unlike mutual funds, ETF shares can be traded like stocks throughout the day (mutual fund shares are traded once a day). Most ETFs are considered lower-cost, passive investments because they track an index, although there are actively managed ETFs.

Earnings Season

Four times in a year when a majority of public companies release financial information. Earnings season typically lasts about a month and starts the second week of January, April, July and October. Often communicated by press releases, conference calls and filings with the SEC—companies share earnings-per-share, financial statements and commentary from management.

Earnings season can be a time when markets experience of more volatility and trading volume. Much of this reaction is based centers on the difference between what companies were expected to report and what they actually reported.

- F -**Federal Funds Rate**

The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight. Note: The federal funds rate is often confused with the discount rate, which is the interest rate the Federal Reserve charges on loans directly from the Federal Reserve Bank. But they are not the same.

Forward Earnings

The forecasted earnings projected for a company that is made by analysts or by the company itself.

Fundamental analysis

The analysis that studies the conditions of the organization and the conditions of its related industry in order to determine the fair value of the securities. Fundamental analysts (i.e., proponents of fundamental analysis) believe that the fair value of the securities is based on the intrinsic value of the security, which in turn depends on the ability of the enterprise to make profits, especially future profits.

FCF

Free cash flow is the money a company has after it has paid its expenses. This number is important to investors because it can show them how likely it is that a company could have extra cash for dividends or share buybacks. A continuous decrease in free cash flow over a few years can also be a red flag to investors.

- G -**Gross Domestic Product (GDP)**

The monetary value of all finished goods and services produced within a country's borders in a specific time period. It includes private and public consumption, government outlays, investments and exports less imports that occur in the country.

Growth Stock

Growth stocks are shares in a company that's growing faster than its competitors, typically showing potential for higher revenue or sales. Growth stock companies may be considered leaders in their industry.

- H -**Hedge Fund**

An aggressively managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment. Investments in hedge funds are illiquid as they often require investors keep their money in the fund for at least one year.

High-Yield Bond

A bond that has a rating of BB or lower and that typically pays a higher yield to compensate for its higher risk. Also known as a "junk bond".

High-Frequency Trading (HFT)

Also known as algo or algorithmic trading, HFT is computerized trading at high volumes and speed using powerful computers and complex algorithms, often of a proprietary nature. HFT can be split into two types: execution and opportunistic. Execution trading is used to find the best possible price for an order and may involve splitting the order into smaller pieces and executing at different times. Opportunistic trading uses algorithms to find small trading opportunities in the market based on conditions rather than completing a specific trade.

- I -**Inflation**

The overall upward price movement of goods and services in the economy, usually measured by the Consumer Price Index and the Producer Price Index.

Investment-Grade Bond

Investment-grade refers to bonds with a Moody's rating of Baa or higher, Standard & Poor's rating of BBB or higher ... or both. Bonds with lower ratings are considered speculative grade. Many investors have policies that require them to limit their bond investments to investment-grade issues.

Index Fund

Index funds are a type of mutual fund that invest in securities that mirror a particular index, such as the S&P 500 Index or the MSCI World Index. Indexes track many different sectors, from smaller U.S. companies to big global companies to various kinds of bonds. Each index acts as a proxy for how that market sector is performing; the corresponding index funds reflect that performance.

Interest Rate

The interest rate is the amount a lender charges to borrow money — and it can also mean the amount your cash earns in a savings, money market or CD account. The baseline interest rate in the U.S. is set by the Federal Reserve. This rate in turn influences savings rates, mortgage rates, credit card rates, and more. Generally, when the Federal Reserve lowers interest rates, the stock market tends to rise.

- J -

Junk Bonds

Nickname for high-yield bonds with a Standard & Poor's rating of 'BB' or lower, or a Moody's rating of 'Ba' or lower. Junk bonds have a higher default risk when compared to investment-grade bonds.

- L -

Large Cap

Large Cap is an abbreviation for the term "large market capitalization" and refers to the companies with a market capitalization value of more than \$10 billion. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Large cap companies tend to be more established with less risk than small or mid-cap stocks.

- M -**Mid Cap**

Mid-cap companies are usually between \$2 billion to \$10 billion in market capitalization, putting them somewhere between small- and large-cap companies. Many mid-cap companies are in a growth phase, making them attractive to some investors who believe the company may grow into a large-cap over time, although this is not guaranteed to happen.

Mega Cap

Mega-cap companies are the largest companies you can invest in, with a market value of \$1 trillion or more. Mega-cap stocks are typically industry leaders and household name brands, like Apple or Microsoft.

Mutual Fund

Mutual funds may invest in stocks, bonds, and other securities — or a combination of these (e.g. a blended fund). Mutual funds can also be industry-specific (such as a mutual fund consisting only of energy stocks, green bonds, or tech companies, and so on).

Money market

This is the market for trading in short- term securities. In most cases, the banking system handles these transactions. The most important institutions of this market are central banks, commercial banks and money-exchange companies.

Main Street

A common term that refers to the interests of the average American and oftentimes refers to small business owners. “Main Street” is used in contrast of “Wall Street” which often symbolizes the interests of large national corporations.

Margin

Borrowed money that is used to purchase securities. This practice is referred to as "buying on margin."

Mortgage-Backed Security (MBS)

A security backed by a mortgage or group of mortgages that represents a claim to the cash flow from the mortgage or group of mortgages, essentially a loan to a

home buyer or business from a shareholder. Typically, the mortgage payments are passed through the shareholders on the way to repayment, meaning shareholders will get regular payments of interest and principal.

- N -

New York Stock Exchange (NYSE)

The world's largest stock exchange by market capitalization of its listed companies at around \$14.2 trillion, with average trading volume at more than \$150 billion. Founded in 1792 by 24 stockbrokers under a buttonwood tree, it is now operated by NYSE EuroNext, a fully electronic stock exchange.

Net Income

When talking about investing, net income usually refers to how much a company makes (or its total losses) after it has paid all its expenses. Net income is therefore usually calculated by subtracting a company's expenses from its revenue. Investors may want to know a company's net income because it can help determine how profitable the company is, although EBITDA (defined above) is another measure.

- O -

Overweight

The upgrading of a stock; a recommendation for investors to increase their investment position in a particular security, sector, asset class or market.

Over-the-counter (OTC) market

Trading transactions that are conducted outside the stock exchange, through multiple communication networks. These networks link brokers and traders on one hand, and investors on the other. The OTC market does not have a mechanism to stop the sharp increases and decreases in the prices of securities, nor the ability to re-balance the market. The most famous OTC market in the world is NASDAQ.

- P -

Primary market

It is also called the IPO's market. It is the market where the securities issued for the first time are sold. Banks and investment companies are the main players in this market.

Price-to-Earnings Ratio (P/E)

A company's current price compared to per-share earnings. A high P/E means investors anticipate future higher growth. If a company is losing money, it will not have a P/E ratio.

The Purchasing Managers Index (PMI)

Comprises five economic indicators. They include new orders, inventory levels, production, supplier deliveries and employment. It's a good indicator of the economic health of the manufacturing sector. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month, and under 50 represents a contraction, while a reading at 50 indicates no change.

Portfolio Management

Portfolio management simply refers to how you select and manage the investments in your portfolio. There are many different management styles, such as active or passive, growth or value. Additionally, you can elect to manage your own portfolio or hire an individual or group to manage it for you.

Preferred Stock

A preferred stock means investors own shares in a company and get scheduled dividends, similar to how bond interest payments work. Preferred stocks may not fluctuate in price like common stocks do, meaning they are often less volatile and risky.

- Q -

QE3

An acronym for the third round of quantitative easing developed by the Federal Reserve. It is an unconventional monetary policy designed to increase the supply of excess lendable reserves and support bank lending. In this case, the Fed will buy \$40 billion of mortgage-backed securities guaranteed by government-supported housing agencies.

- R -**Recession**

A recession is a period of economic contraction. The National Bureau of Economic Research (NBER) defines a recession further as a decline in monthly employment, personal income, and industrial production. As an investor, a recession may indicate a drop in the value of your portfolio, although this may be temporary: When looking at the history of U.S. recessions, the stock market has typically rebounded after recessions.

REIT

Real estate investment trusts (REITs) are a way that investors can further diversify their portfolios. Instead of having the responsibility of managing an investment property yourself, you can invest in REITs, which are generally large-scale real estate projects that investors can help fund in exchange for partial ownership. Most REITs are publicly traded and pay dividends to investors.

Retained Earnings

When looking for a company's net income statement, you may come across the term "retained earnings," also sometimes called unappropriated profit, uncovered loss, member capital, earnings surplus, or accumulated earnings. In general, retained earnings is the amount of money a company keeps and potentially reinvests after it gives its investors a dividend payout. As an investor, knowing whether a company had positive retained earnings can help you determine how much money it has to continue growing. If its retained earnings are negative, that could be a sign the company is in debt and may not be a good investment.

Return on Equity

Return on equity, sometimes called return on net worth, can help investors compare how well companies are managing their stockholders' contributions. You can calculate it using this formula: $\text{Net income} / \text{Average shareholder equity}$. A higher return on equity can signal to investors that a company is managing its money efficiently.

ROI

Return on investment (ROI) is just that: the return you get after making an investment in a stock, bond, mutual fund, and so forth. Investors generally hope for a positive ROI, meaning that their investment has made a profit. While a good ROI will vary depending on the type of investments you're making, some investors look to the historic return of the stock market (about 7%) as a barometer.

- S -

Stocks

If you've made it this far, you probably know what a stock is. To review, a stock is a way to buy a piece of ownership into a company. You can buy and sell your stocks depending on whether you anticipate your stocks will decrease or increase in value

Stock Exchange

A stock exchange is the place where you buy, sell, or trade stocks. Common U.S. stock exchanges are the New York Stock Exchange (NYSE) and the Nasdaq.

Small Cap

Small-capitalization stocks typically have a market capitalization (number of shares outstanding multiplied by the stock price) of \$1.5 billion or less. Since they are less established, small-cap stocks are usually more volatile than larger, S&P 500 companies.

Stop-Loss Order

A stop-loss order can help investors have more control over their stocks. When a stock reaches a certain price that you choose, your broker will sell, buy, or trade that stock. Having a stop-loss order can help you limit how much money you make or lose in the stock market.

- T -

Trading

Buying or selling securities after being listed in the financial market

Technical analysis

The analysis that investigates the historical record of the movement pattern of the securities prices and their traded volumes, in order to determine the trend of the securities prices in the future.

Tapering

Prior to May of 2013, “tapering” was a term most commonly heard in athletics training. On May 22, U.S. Federal Reserve Chairman Ben Bernanke stated in testimony before Congress that that Fed may “taper” the bond-buying program, called quantitative easing (QE), in the coming months. The expectation in 2013 is that the Fed will gradually bring its current pace of \$85 billion per month in bond purchases to zero by the middle half of 2014.

Tightening Cycle

All credit cycles go through periods of time in which funds are relatively easy to borrow. A tightening cycle is a period characterized by lower interest rates, lower lending requirements and an increase in the amount of available credit. These periods are followed by a contraction in the availability of credit. During the tightening cycle, interest rates climb and lending requirements become stricter. The contraction period continues until risks are reduced for lending institutions, at which point the cycle begins again.

Trade Deficit

Occurs when a country’s imports are greater than its exports. It also represents an outflow of domestic currency to foreign markets. A trade deficit is an economic measure of a negative balance of trade which isn’t necessarily problematic because it often corrects itself over time. However, the U.S. trade deficit has been growing in the U. S. in recent decades, raising concern among some economists.

- U -

Unemployment

Unemployment occurs when someone actively searching for a job is unable to find employment. Often used as a measure of the health of an economy, the unemployment rate is the number of unemployed divided by the total labor force. The U.S. Bureau of Labor Statistics’ uses the “U-3” unemployment rate as the

unofficial unemployment rate but this rate does not include discouraged unemployed workers who are no longer actively looking for work.

U.S. Census Bureau

Founded under Article I, Section II of the U.S. Constitution 1787 and formally declared a permanent office in 1903 by President Theodore Roosevelt, the U.S. Census Bureau is responsible for conducting a count of the U.S. population every 10 years. The data collected is used to determine the number of House representatives for each state as well as allocation of federal funding.

- V -

Volatility

A measure of the change in investment value. Volatility is generally expressed by the standard deviation.

Value Stock

A value stock is a stock that investors believe is undervalued and/or inexpensive compared to its past prices on the stock market or with its competitors. Investors may consider a stock's price-to-earnings ratio to help them determine if something is a value stock.

Venture Capital

Venture capital is money a startup uses to grow its business. This money usually comes from private investors or venture capital firms. Investors may elect to invest venture capital into startups they believe have the potential to be profitable with time.

- Y -

Yield

The yield refers to the interest on a bond or the dividends paid on a stock or mutual fund. Yield also includes expected capital gain or loss.

Sources: Investopedia, Business Dictionary, SoFi, Dictionary.com, Wikipedia, Ferguson Wellman Glossary of Investment Terms, Ferguson Wellman Glossary of Investment Terms, Investing Answer, Finbox, The Street, SEC.gov, PIMCO.com, MarketWatch, about.com, census.gov,

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Information Sources

Without knowing the most critical information related to economics, markets, industries, and companies; you are at a substantial information disadvantage to institutional investors.

1) Company's Investor Relations web

2) U.S. Securities and Exchange Commission

<https://www.sec.gov/edgar.shtml>

- Source of free public company filings since 1994.
- Search for
 - Public company filings
 - Advanced Legacy search
 - Quick Edgar tutorial

3) Seeking Alpha

<https://seekingalpha.com/>

- Investment analysis site. Request email alerts useful for research or alerts on stocks you own. Search financial analyst's biographies. Can request trial usage. Subscribers get extra information. Provides conference calls transcripts.

4) Wall Street Journal Market Data

<https://markets.wsj.com/usoverview>

- Overview of US markets at a glance. Keep this site handy for reference.

5) Barron's Market Lab

<https://www.barrons.com/market-data/market-lab>

- Provides the latest information on markets at a glance.

6) Yahoo Finance

<https://finance.yahoo.com/>

- Provides the latest market data for stocks, bonds, mutual funds, commodities, etc. and investment news.

7) Google Finance

<http://www.google.com/finance#>

- Includes financial markets, news, stock screener and domestic trends. Register to set up a portfolio.

8) Bankrate

<http://www.bankrate.com>

- A directory of interest rates for different types of loans, mortgages, and savings accounts.

9) Federal Reserve Statistical Release

<https://www.federalreserve.gov/releases/h15/data.htm>

- The H.15 release contains daily interest rates for selected U.S. Treasury and private money market and capital market instruments. It is published weekly. Also provides historical data for up to 30 years.

10) BigCharts

<http://bigcharts.marketwatch.com>

- A searchable database of quotes and performance charts for stocks and mutual funds. Provides search by ticker symbols on Big chart, Advanced chart and Interactive chart. Historical Quotes tool allows you to look up a security's exact closing price and offers historical quotes 2009-current.

11) Bloomberg

<http://www.bloomberg.com/>

- Provides some free information. Subscription databases and other Bloomberg products are not currently available at The Library of Congress.

12) Barron's

<https://www.barrons.com/>

- Provides free information. Explore the section on Investing Ideas. More coverage of investments with subscription. Sign up for email alerts.

13) Zacks

<https://www.zacks.com>

- Offers free articles, guides and tools on personal finance and investing for beginners as well as premium products for serious investors.

14) SECInfo.com

<http://www.secinfo.com>

- A searchable commercial database of EDGAR SEC filings searchable by name, industry, business, SIC code, area code, topic, CIK, accession number, file number, date, ZIP code, and more. Also provides listings of:
 - Initial Public Offerings (IPOs) such as IPO Registrants (Companies, Funds, ...) and IPO Filings (S-1s, SB-1s, Prospectuses, ...)
 - Filings by Type (10-K/10-Q Reports, Registrations, ...)
 - Mergers and Acquisitions (M&As) / Tender Offer Filings (14D/Fs, 13Es & S-4s)
 - Insider Trading Reports (3/4/5s, 144s & U-12s)
 - Institutional Ownership (13D/Gs, 13Fs & N-30s)
 - Proxy Filings (Preliminary & Definitive 14A/Cs)
 - Late-Filing Notices