Student Research - Key Vocabulary

Scroll down to the bottom for "What might cause stock prices to rise or fall.

Analyst – An employee of a brokerage or fund management firm who studies companies and makes buy and sell recommendations on stocks of these companies.

Annual Report - An annual report is a record published every year by publicly held corporation that details its financial condition. The report must be distributed to all shareholders, contains a description of the company's operations, its balance sheet, income statement, and other relevant information.

Ask Price - The lowest quoted price sellers are currently accepting (asking) for a share of the company's stock. The Ask price is also called the Asked or Offer price.

Asset - An item of economic value owned by an individual or a corporation, especially that which could be converted to cash. Examples are cash, securities, accounts receivable, inventory, office equipment, a house, a car, and other property.

Auction Market - Buyers and sellers interacting by announcing bids and offers and thereby determining prices, usually at a physical location like a trading floor.

Available Equity – *(SMG term)* The amount of total equity remaining for buy and short-sell trades after subtracting the initial margin requirement for existing long and short positions. If available equity is zero or negative, all buy and short-sell transactions will be rejected. Here is the calculation of available equity. If the value of shorts is negative, ignore the minus sign. *Available Equity = Total Equity – [50% x (value of longs + value of shorts)]*

Balance Sheet - A summary of a company's assets, liabilities, and owners' equity. A balance sheet shows a company's financial condition at a given time.

Bankrupt – The state of a person or firm unable to repay debts.

Bear Market – Any market in which stock prices are declining for a prolonged period, usually falling by 20 percent or more.

Beta: measure of the volatility of a security (stock) or a portfolio in comparison to the market as a whole. **Break down** – *a **beta of 1** indicates than the security's price will move with the market. A **beta of less than 1** means that the security will be less volatile than the market. A **beta greater than 1** indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market.*

Bid price - The highest quoted price a buyer is willing to pay for a share of a company's stock. This an investor's offer to buy a security.

Blue-chip stocks – Stocks of companies known for their long-established record of earning profits and paying dividends. Blue chips tend to be large, stable, and well known. Most of the top stocks in the S&P 500 are blue chips.

Bond – The indebted entity issues investors a certificate, or bond, that states the interest rate (coupon rate) that will be paid and when the loaned funds are to be returned (maturity date). Interest on bonds is usually paid every six months (semiannually). The main types of bonds are the corporate bond, the municipal bond, the Treasury bond, the Treasury note, Treasury bill, and the zero-coupon bonds. Bonds are called fixed-income investments because they pay a fixed amount of interest, which is income to a bondholder.

Bottom fishing – Buying stocks whose prices have bottomed out or fallen to low levels. Value investors favor this investment technique.

.**Broker/investor** – A person who gives advice and handles orders to buy or sell stocks, bonds, commodities, and options. Brokers work for full-service and discount brokerage firms. The type of firm you use determines the amount of commissions you pay and advice you receive from your broker.

Broker's Fee – A fee that brokers earn by completing trades for investors. A commission is usually based on the number or value of shares traded. In the Stock Market Game, teams pay a 1% commission on the value of all stock trades. The total of all commissions is listed in the Account Summary, and each individual commission is listed in the Transaction History.

Bull Market – A bull market is a prolonged period of rising stock prices. Excluding a few nasty short-lived corrections, for the 15 years leading up to June 30, 1999, U.S stocks experienced a healthy bull market. The S&P 500 soared 1,295 percent during that time. That is an annualized return of 19.2 percent.

Buying Power – ***(SMG term***) The maximum value of buy and short-sell trades a portfolio can support given the initial margin requirement's limit in borrowing. Note that broker fees and interest charges reduce a team's buying power. Here is the calculation of buying power: *Buying Power = Available Equity x 2.*

Capital – Capital is an extremely vague term that depends on the context for a specific definition. In general, it refers to financial resources available for use. (Assets or the financial value of assets such as cash.)

Cash Balance – ***(SMG term)*** The amount of cash left from the initial $100,000. Once trading begins, the cost of all stock purchases is deducted along with any interest payments and realized losses. Any interest payments or dividends received and any realized gains are added to the cash balance. If the cash balance is zero, new buy or short-sell transactions will be funded through borrowing on the margin. A negative cash balance shows the amount borrowed on margin.

Certificate of Deposit (CD) – A special deposit at a bank or thrift institution that pays interest and is for a given amount of money and a given amount of time.

Closing price (Close) – The last price at which a stock traded on a particular day. The closing of the NYSE is announced with a bell.

Collateral – Property that a borrower must legally turn over to a lender if the borrower cannot repay a loan. In The Stock Market Game, the stocks a team owns are collateral when borrowing on margin.

Common Stock – Common stock represents part ownership of a company. Holders of common stock have voting rights but no guarantee of dividend payments. In the event that a corporation is liquidated, the claims of owners of bonds and preferred stock take precedence over those of owners of common stock. For the most part, however, common stock has more potential for appreciation.

Compound Growth – Growth from earnings received on reinvested earnings as well as on the initial amount invested.

Compounding – Compounding is making interest on interest. The power of compounding interest is truly magical. At 15% interest for 25 years, $10,000 would grow to $330,000!

Consumer Price Index (CPI) – A measure of the level of prices paid by the average American consumer. Percentage changes in the CPI measure the rate of inflation.

Corporate Bond – An IOU issued by a company when it borrows money for a long period of time.

Corporation – A company legally separate from the stockholders who own it and the managers who run it. A corporation offers limited liability, long life and easily transferable ownership.

Cost Averaging – *(SMG term)* Averaging the cost of multiple trades (buying or selling short) of the same stock. Similar trades of the same stock are combined into one line in Account Holdings and Realized Gains/Losses.

Current Assets – Things that a company owns and could sell for cash during the year.

Current Liabilities – The amount of a company's debts payable within a year.

Day Order – An order to buy or sell stock that expires at the end of the trading day.

Debt – An amount of money owed from one person or firm to another. Bonds, loans, and commercial paper are all examples of debt.

Delisted – A stock that has been removed from, and is no longer traded on, the New York Stock Exchange, the NASDAQ Stock Market or the American Stock Exchange. A stock market may delist a company if it merges with another company, files for bankruptcy, moves from one stack market to another, or fails to meet a stock market's minimum standards. The Stock Market Game will reject efforts to trade a delisted stock and will liquidate any such holdings, and add the resulting gain or loss to the Gains & Losses page.

Depreciation – The decline in value of an asset from wear and tear over a period of time, such as one year.

Diversification – A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize risk by combining different investments whose prices are not likely to move in step with one another.

Dividend – A cash payment from profits announced by a company's board of director's and distributed among stockholders. In the Stock Market Game, and dividends received are listed in Transaction History and are included in the portfolio's total equity.

Dividend Yield – A company's latest annual dividend expressed as a percentage of its stock's latest price. A stock has no yield if a company pays no dividend. The dividend yield is calculated by dividing the latest annual dividend by the stock's latest price.

Divisor – A special number used to calculate the Dow Jones Industrial Average.

Dow Jones Industrial Average – The best-known measure of stock prices consisting of 30 large, well-known companies in major sectors of the U.S. economy.

Earnings Per Share (EPS) – A company's profit or earnings divided equally among all the shares investors own. It is calculated by dividing total earnings by the number of shares outstanding.

Earnings – Whatever remains after subtracting a company's costs from its revenue. A company's profit.

Entrepreneur – Someone who starts, manages, and bears the risks of owning a business.

Equity – For a business, equity is the value of a company's assets that belong to its owners after paying all its debts. It is the part of a company's net worth that belongs to shareholders.

Exchange Traded Fund (ETF) – A company that invests in a basket of stocks (or bonds) that track a particular index of stocks (or bonds).

Ex-Dividend Date – The date after which a stock's buyer will not get the right to receive a dividend the company is about to pay. So on and after this date, a buyer receives the stock "ex-dividend," which means without dividend.

Federal Reserve – The central bank of the United States that sets monetary policy. The Federal Reserve oversees money supply, interest rates, and credit with the goal of keeping the U.S. economy and currency stable. Governed by a seven-member board, the system includes 12 regional Federal Reserve Banks, 25 branches, and all national and state banks that are part of the system. The Federal Reserve is commonly referred to as the Fed.

Fixed-Income Investment – A bond, which is so named because it pays a fixed amount of interest each year, which is income to a bondholder.

Financial Statements – A company's balance sheet and income statement.

Floor broker – A person who completes customers' orders on the floor of a stock exchange. Some floor brokers are employees of brokerage companies that are members of the exchange. Other floor brokers are independent.

Gross Income – A company's revenue or sales over a period of time.

Growth Stock – A stock that pays little or no dividends because the company is investing all of its earnings in its rapid growth.

Holding Period – The length of time someone holds a stock investment.

Income Statement – A summary of a company's revenue, expenses, and income (or loss) over a period of time, such as one year.

Income Stock – A stock with a record of hefty dividend yield that often exceeds that of the overall market.

Industry – A group of companies producing similar products or services.

Inflation – An increase in the general level of prices.

Initial Margin Requirement – The minimum amount of equity an investor must have in order to borrow for short-sell transactions or margin purchases. Failure to meet this minimum requirement prevents selling short or buying on the margin. The initial margin requirement has two main purposes: (1) It limits the amount that may be borrowed to finance stock trading; and (2) it protects the broker making the loan by providing collateral to safeguard the loan. The Federal Reserve sets the initial margin requirement in the U.S. In the Stock Market Game, the initial margin requirement is 50% of the borrowed money. The initial margin requirement differs from the maintenance margin requirement. Here is the calculation of initial margin requirement. *If the value of shorts is negative, ignore the minus sign. Initial Margin Requirement = (Value of Longs + Value of Shorts) x 0.50)*

IPO – A company's first sale of stock to the public. When a company has and IPO, it "goes public" by changing from a private company to a public company. IPO's are often smaller, younger companies seeking capital to expand their business. In the Stock Market Game, IPO's will be available for trading after they have been added to the SMG system.

Interest – Lenders make money from interest, borrowers pay it. Someone who holds more than 5-10% of the stock in a company is said to hold significant interest.

Interest on Cash – Cash is money in a bank account, so interest on cash is any payment a bank makes on this deposit. In the Stock Market Game, a team receives a weekly interest payment on its average daily cash balance. Since there are 52 weeks in a year, this annual rate is divided by 52 to yield the weekly rate of interest. Here is the calculation of interest on cash. *Interest on Cash = Average Daily Cash Balance During a Week x (Current Interest Rate Received / 52)*

Interest on Loans – The amount that someone pays for borrowing money. In the Stock Market Game, a team makes a weekly interest payment on its average daily balance of borrowings for margin purchase or short sales. Since there are 52 weeks in a year, this annual rate is divided by 52 to yield the weekly rate of interest. Here is the calculation on interest on loans: *Interest on Loans = Average Daily Loan Balance During a Week x (Current Interest Rate Paid / 52)* .

Investing – Investing is the key to building wealth…. Actually, investing in and of itself is not enough. You have to invest wisely!

Investor – Someone who buys stock or other assets to have the money grow over time.

Last – The most recent (last) trading price of a stock on a particular day. If the trading day is over, the last price is also the closing price.

Liability – A debt that a person or company owes and must repay in the future.

Liquidation – When a business or firm is terminated or bankrupt, its assets are sold and the proceeds pay creditors. Any leftover are distributed to shareholders. Any transaction that offsets or closes out a long or short position.

Long Position – The condition of owning stocks. The value of a long position is a stock's current share price multiplied by the number of shares owned. In the Stock Market Game, the Value of Longs shown in the Account Summary is the current value of all stocks a team owns.

Longs – The stocks that someone owns.

Loss – The amount by which a company's costs exceed its revenue. A loss penalizes a company for failing to produce what people want to buy and prices they are willing to pay.

Margin Account – A brokerage account that allows an investor to borrow money or stocks from a broker.

Margin Agreement – A legal agreement between a customer and a broker to open a margin account.

Margin Buying – Using money borrowed from a broker to buy stocks.

Margin Call (or Maintenance Call) – A broker's request that an investor add equity to an account that no longer meets the maintenance margin requirement. For example, a drop in the market value of stocks owned (long position) can push equity below the maintenance requirement. Similarly, an increase in the value of stocks sold short can raise the maintenance requirement above the required minimum. In either case, a broker might issue a margin call, even though the broker is not required to do so. If the margin call is not satisfied, a broker can sell some of the investor's stocks (without notification) to raise equity in the account to the minimum level. In the Stock Market Game, a team receiving a margin call has three weeks to meet the 30% maintenance requirement. It can do so if the value of its stock holdings increases or it the team sells or short covers a stock. The money raised will then pay off some of the margin borrowing to raise the team's equity. If the maintenance requirement is not met after three weeks, SMG will sell or short cover stocks, beginning with the lowest-priced ones, until the minimum maintenance requirement is met. Here is the calculation of maintenance margin requirement. If the value of shorts is negative, ignore the minus sign.
Maintenance Margin Requirement = 0.30 x (Value of Longs + Value of shorts

Market Capitalization (or Market Cap) – The total current market value of all outstanding shares of a company. Market capitalization is calculated by multiplying a stock's current price by the total number of outstanding shares.

Market Maker – A business that maintains bid and ask prices for a stock and stands ready to buy or sell shares at these publicly quoted prices.

Market Order – An order to buy or sell stock at the current market price.

Market – Any method enabling people to buy or sell with one another. A market does not necessarily have a physical location.

Mid cap – Short for "middle cap," mid cap refers to stocks with a market capitalization of between $2 billion to $10 billon.

Money Market Account – A special savings account that pays interest and allows a saver to write a limited number of checks each month.

Municipal Bond – An IOU issued by a state, city or local government when it borrows money for long periods of time.

Mutual Fund – A company owned by investors who pool their savings to invest in a variety of stocks or bonds managed by a professional. It has been shown in study after study that a majority of mutual funds fail to beat the market. Also, picking mutual funds purely on the basis of past performance usually does not work.

NASDAQ – An electric stock market run by the National Association of Securities Dealers. Brokers get price quotes through a computer network and trade via telephone or computer network. Many of the stocks traded through NASDAQ are in the technology sector. Since there is no centralized exchange, NASDAQ is sometimes referred to as an over-the-counter market or a negotiated marketplace.

Nasdaq Composite Index – A popular measure of stock prices consisting of nearly 4,000 companies listed on the Nasdaq Stock Market. The index is a popular guage of the performance of technology stocks.

Net Change – The difference between a stock's closing (or last) price on a given day and its closing price on the previous trading day.

Net Cost/Share – ***(SMG term)*** The amount spent on each share, including commission, for stocks owned (held long). If multiple trades of the same stock have occured, the net cost per share will be an average of the net costs per share of each trade.

Net Equity Gain – ***(SMG term)*** The amount of money a team has gained or lost since the beginning of the Stock Market Game. Here is the calculation of net equity: *Net Equity Gain = Total Equity - $100,000.*

Net Income Per Share – See Earnings Per Share.

Net Income – A company's profit after subtracting all costs and income taxes.

Net Interest – ***(SMG term)*** The amount of interest received on a cash balance minus any interest paid on a margin loan. Net Interest is listed in the Account Summary and individual interest activity is listed in Transaction History.

New York Stock Exchange (NYSE) – The oldest and largest stock exchange in the United States, the New York Stock Exchange is located on Wall Street in New York City. The total market value of the roughly 2,300 companies whose shares are listed on the NYSE is about $5 trillion. It was founded in 1792. Also called the "Big Board", the NYSE lists most of the "Blue Chip" companies.

Open – The price of a stock on its first (opening) trade of the day.

Opening price – An un-executed order that is still valid. The start of trading on a securities exchange.

Outstanding Shares – The total number of shares a company has sold to the public and are now held by investors.

Over-The-Counter Bulletin Board (OTBB) – An electronic quotation system for many stocks that don't qualify for listing on the national markets.

Ownership – The legal right to benefit from using something or from selling it to others. Ownership is also called property rights.

Parent Company – A business that controls another company by owning most or all of its stock.

Partnership – A company owned and managed by two or more people who share its profits or losses. A partnership is not separate from its owners, who are liable for the company's debts.

P/E: the ratio for valuing a company that measures its current share price relative to its per-share earnings. **Break down** – *the P/E ratio indicates the dollar amount an investor can expect to invest in a company in order to receive $1.00 of that company's earnings. If a company were currently trading at a P/e of 20 the interpretation is that an investor is willing to pay $20 for $1 of current earnings*.

**In general, a high P/E: investor is expecting higher earnings growth in the future compared to companies with a lower P/E. A low P/E can indicate either that a company may currently be undervalued or that the company is doing exceptionally well relative to its past trends.*

Percent Return – *(SMG term)* The gain or loss in a team's portfolio since the beginning of the game expressed as a percentage of the original $100,000. Here's the calculation of percent return.
Percent Return = Net Equity / $100,000

Portfolio – The group of assets—such as stock, bonds and mutual—held by and investor.

Preferred Stock – Shares of a company's ownership that have no voting rights but usually have a guaranteed dividend that must be paid before paying any dividend to common stockholders. If a company fails, preferred stockholders are repaid before common stockholders. Preferred stock does not share most of the company's profits (or losses).

Price Limit – The highest price an investor will pay for a share when buying or short covering a stock - or the lowest price an investor will accept to sell or short sell a stock. Investors often choose price limits to protect themselves against sharp movements in stock prices. In The Stock Market Game, a team may specify a price limit when entering a transaction in the Enter a Trade section.

Price/Earnings Ratio – A company's closing price divided by its latest annual earnings per share. If calculated with last year's earnings, it is called the trailing P/E ratio. If calculated with a forecast of next year's earnings, it is called the forward P/E ratio.

Private Company – A company that doesn't sell shares to the public. You can't buy shares of a private company in the stock market.

Profit (Earnings) – The earnings a company realizes after all costs, expenses, and taxes have been paid. It is calculated by subtracting business, depreciation, interest, and tax cost from revenues. Profit is the supreme measure of value as far as the market is concerned. Profit is also called earnings or net income. Profit is a company's reward for taking a risk and successfully producing what people want to buy at prices they're willing to pay.

Public Company – A company with publicly traded shares that anyone can buy in the stock market.

Quote – The bid or ask price quoted for a stock at a given time.

Real Return – An investment's return after subtracting the rate of inflation.

Realized Gains & Losses – The total amount gained or lost from the sale or short covering of a stock. Interest received or paid and dividends received are also included in realized gains or losses. In The Stock Market Game, any stock still held in a team's portfolio would not be listed in Realized Gains & Losses.

Regional Stock Exchanges – Small exchanges located outside of New York City.

Retained Earnings – The profit (earnings or net income) a company keeps (retains) and invests in its future growth.

Return – The increase in an investment's value during a year expressed as a percentage of the investment's value at the beginning of the year. For example, an investment worth $100 at the beginning of the year and $110 at the end of the year has increased in value by $10, so the investment's return for the year is 10 percent ($10 / $100 = .10 = 110%).

Revenue – A company's sales over a period of time.

Risk – The likelihood of losing money. Higher risk means a greater opportunity for high returns… and a higher potential for loss.

S&P 500 (Standard & Poor's 500) – A popular measure of stock prices consisting of 500 large companies that represent the major sectors of the U.S. economy. One of the most commonly used benchmarks of the overall stock market.

Sales – The amount of money a company receives by selling a product or service. Also called revenue.

Sector – A broad group of similar industries.

Share – A unit of ownership in an equity or mutual fund. Shares are also known as stocks or equities.

Short Position – The condition of having sold a short stock. The value of a short position is a stock's current share price multiplied by the number of shares sold short.

Short Sale – Sale of a stock borrowed from a broker. Short sellers believe a stock's price will drop and enable them to repay the borrowed shares with lower-priced ones. The difference in price would be the short seller's gain. If the stock's price rises, however, a short seller will lose money because the borrowed shares will be repaid with higher-priced ones. *Click here to see how short sales work in The Stock Market Game.*

Shorts – The stocks that someone has sold short.

Small capitalization stocks (Small Cap) – A stock of a company whose market capitalization is small, usually under $500 million. Small-cap stocks tend to grow faster than larger-cap companies, but they also tend to be more volatile (inconsistent, fickle, changeable).

Spread – The difference between the current bid and ask prices for a stock at any given time.

Stock – A share of ownership in a business. A share of a company's profit (or loss) belongs to each owner.

Stockbrokers – It used to be that only the wealthy could afford a broker and have access to the stock market. With the internet came the explosion of discount brokers that let you trade at a smaller fee, but don't provide personalized advices. Because of discount broker, nearly anybody can afford to invest in the market now.

Stockholder – An owner of stock.

Stock Index – A statistical guage that uses a given number of stocks to measure changes in the overall stock market.

Stock Market – The market in which investors trade stock with one another by using the services of brokers.

Stock Split – A change in a company's number of shares outstanding that does not change a company's total market value or each shareholder's percentage stake in the company. Additional shares are issued to existing shareholders at a rate expressed as a ratio. A 2-1 stock split, as in 100 shares of a $60 stock would have 200 shares of a $30. This makes the stock more affordable.

Stock Symbol – A grouping of one to four letters used in place of a company's full or abbreviated name.

Team Portfolio – ***(SMG Term)*** A record of all transactions, activity, and stock positions of a team. A team's portfolio is usually updated each day.

Total Equity – ***(SMG Term)*** A team's cash balance plus the value of its longs (stock holdings). For example, a team that has $10,000 of cash and owns $60,000 worth of stocks has a total equity of $70,000. Teams are ranked according to the relative standing of their total equity. Here is the calculation of total equity: *Total Equity = Cash Balance + Value of Longs*

Total Return – The annual percentage rate change in a stock investment resulting from dividends and changes in stock prices. The return is expressed as a percentage of the investment's value at the beginning of the year.

Undervalued Stock - A stock or other security that is trading below its true value. The difficulty is knowing what the "true" value actually is. Analysts will usually recommend an undervalued stock with a strong buy rating.

Unrealized Gains & Losses – The difference between the initial purchase price of a stock and its current market value. The gain or loss is called unrealized because the stock has not yet been sold or short covered.

Treasury Bill – A short-term IOU issued by the U.S. Treasury when it borrows money for one year or less.

Treasury Bond – An IOU issued by the U.S. Treasury when it borrows money for 10 or more years.

Treasury Note – An IOU issued by the U.S. Treasury when it borrows money for more than one year but less than 10 years.

Volatility – A statistical measure of the tendency of a market or security to ride or fall sharply within a period of time. A variable in option pricing formulas that denotes the extent to which the return of the underlying asset will fluctuate between now and the expiration of the option.

52- week high/low – The highest and lowest price at which a stock was sold in the past year (52 weeks). Many investors see the 52- week high or low as an important indicator.

POSSIBLE REASONS FOR STOCK PRICES TO RISE OR FALL

Divestiture – Large conglomerates (a business enterprise consisting of widely diversified companies) often have one division of their corporation, which does not make money. By announcing the sale of its losing interest, its potential for profits increases and its value will rise.

Take over bids – an attempt by one company to buy another through stock acquisition, by buying enough stock to control it. The stock of the company taken over becomes more valuable as the larger company makes offers.

Profit – A report about the increase profits of a company usually indicates that the company is prospering and may increase its dividends (A portion of a company's net income paid to stockholders as a return on their investment). This may draw investors and increase the price of its stock.

New product line – A company produces a new product.

Government spending – The U.S. government is the worlds leading consumer.

High interest rates - make it hard for companies to borrow money for expansion. Less growth may frighten away potential investors.

Increase in margin rates – The Federal Reserve can increase the margin rate; thereby limiting the amount of money a broker may lend his/her customer. For example, a 50% margin rate means that a person who wants to buy $10,000 of stock on margin must have $5,000 (50%) in cash, and may borrow the other $5,000 from the broker. If the rate is raised to 80% the buyer must increase his contribution to $8,000.

Investigation by the SEC – The Securities and Exchange Commission is the watchdog for the investment industry. If they are investigating a company this may scare off investors.

Government Instability – If a foreign country that supplies us with oil, for example, were going through a revolution, uncertainty would be created about the future of American companies, which depend, either directly or indirectly, on oil.

Accidents, Health Problems – News about an accident or about a product, which may cause health problems, may cause investors to fear the company will not be able to regain its customers or reputation.