AMERICAN DEPOSITORY RECEIPT (ADR). It represents ownership of a non-U.S. (such as Indian) company's shares to be traded in the American market. The ADRs thus enable the US investors to buy shares of foreign companies without having to undertake cross-border transactions. The prices of ADRs are in US dollars. The dividends are paid in US dollars. From the viewpoint of U.S. investors, the ADRs are like shares of US-based companies. Each ADR can represent one share or fraction of a share or multiple shares of the company concerned. The price of an ADR moves closely with the share price of the company in its home market, adjusted for the ratio in which the ADRs have been issued against the company's shares. The ADR system facilitates the raising of capital by Indian companies from the U.S. investors.

AMORTIZATION. It means writing off the assets of a company over a number of years for the purpose of their replacement. Amortization is usually accompanied by putting aside money in a sinking fund so that the cost of replacement or modernization can be met in due course.

ANNUAL GENERAL MEETING. Meeting held once a year where the directors of the company report to the shareholders on the year's performance. Notice of the meeting, along with a copy of the annual report, has to be compulsorily sent to every shareholder. This meeting also receives the auditors' report and appoints auditors for the ensuing year.

ANNUITY. An investment scheme offered by banks, life insurance companies and other financial institutions, in which the buyer of annuity pays a lumpsum and, in lieu of such payment, receives a specified periodical sum for life or for a fixed period. On death or at the expiry of the fixed period, the invested fund may be refunded to the investor or his nominee. Annuities are a pure investment and do not provide life insurance.

ARBITRAGE. Buying a commodity or security in one market and simultaneously selling it at a profit in another market, thus taking advantage of temporary price discrepancies.

ARTICLES OF ASSOCIATION. For forming and registering a company, it is necessary to draft the Memorandum of Association which defines the objects of the company. It also requires the framing of the Articles of Association which lay down the detailed rules and regulations for managing the company's affairs. These documents have to be submitted to the Registrar of Companies for his approval for the incorporation of the company. The Articles are effectively the contractual terms between shareholders and directors.

AT PAR. Par value is the nominal value of a security as determined by an issuing company. "At par" means equal to the par value. It is also called face value of the security.

AUTHORIZED SHARE CAPITAL. The *authorised share capital* is the maximum amount of share capital which a company is allowed to raise from the shareholders. The company may raise the share capital part by part. Usually only a part of the authorised capital is issued to shareholders and is called the issued share capital. This leaves room for increasing the issued capital as and when necessary without exceeding the authorised capital. The authorised capital can also be increased but it involves more procedural requirements.

BACKWARDATION. In the case of futures contracts, the futures price prior to the contract's settlement date is normally higher than the cash market price by the amount of carrying cost, i.e. interest cost plus depository/warehousing charges for the holding period till the contract's expiry. This situation is known as 'contango'. The difference between the futures price and the cash market price goes on narrowing and finally disappears on the contract's expiration date. In some unusual circumstances, the futures price before the settlement date falls below the ruling cash price. If so, the situation is described as "backwardation".

BAD DELIVERY. It means delivery of a share certificate, together with a deed of transfer, considered defective for various reasons. This was quite common when paper certificates were in use. For example, the certificate was mutilated or the signature of share-owner on transfer deed did not tally with the signature in the company's record. These problems have been overcome by the adoption of demat system which has no paper certificates

BADLA SYSTEM. A system which prevailed in the Indian stock exchanges under which the buyer of shares was allowed to carry forward a trade from one settlement to the next settlement by paying badla charges (a form of interest) to the 'badla wala' who used to specialise in badla business. This system used to dominate the Indian stock market upto 2000. It facilitated excessive speculation and price manipulation. It was, therefore, abolished completely in 2001.

BALANCE SHEET. The balance sheet is a statement of a company's financial position at a given point of time. It gives, on one side, the various assets of the company and, on the other side, the various liabilities, as distinct from the shareholders' funds. The shareholders' funds include the share capital and the reserves built out of profits. The term 'net worth' is also used for the shareholders' funds. An illustration of the Balance Sheet is given below in percentage form in order to bring out its usual structure.

Illustration of Balance Sheet

Shareholders' Funds and the Liabilities		*Assets*	
Shareholders Funds:	%	Fixed Assets:	%
(a) Share Capital		Land, Building, Plant,	
Equity shares	20	Machinery, Furniture	35
Preference shares	Nil	and Fixtures	
		Current Assets:	
		Inventories (stocks of finished	
(b) Reserves	15	goods and raw materials)	40
Net Worth (a+b)	35	Debtors for credit sales	20
Borrowings:		Cash and bank balance	5
Short term loans	40		
Long term loans	15		
Creditors for credit			
purchases	10		
	100		100

BASIS POINT. One hundredth of 1%. Thus, one basis point is equal to .01, two basis points would be equal to .02 and so on. For example, if it is reported that the prevailing interest rates have increased by three basis points, it means increase in the interest simply by .03 (i.e. 6% will rise to 6.03, 7% to 7.03, 8% to 8.03, etc.)

BEAR. A stock market operator who expects share prices to fall. He keeps selling, and may cause selling pressure thereby lowering the prices further.

BEAR MARKET. Prolonged period of falling share prices, dominated by selling pressure in the market place. It may be brought about by bears, or by adverse economic and political factors.

BETA FACTOR. A measure of change in price of particular shares in relation to the general movement of the market. A beta of 1 means that the rise and fall in the price of particular shares corresponds exactly to the market's movement, i.e. when the market rises by 10%, the particular shares also rise by 10%; a beta of 2 would mean that the rise and fall is double compared to the market's movement, i.e., when the market rises by 10%, the particular shares rise by 20%, and when the market falls by 10%, the particular shares fall by 20%. With a beta of 0.5, the particular share will rise (or fall) by one-half in relation the market's general movement; i.e., rise by only 5% if the market rises by 10% and fall by 5% if the market falls by 10%.

BLANK TRANSFER. Where the name of the transferee is left blank on a share transfer form, it constitutes a blank transfer. The use of share transfer forms was common when share certificates were in vogue. The adoption of demat system has largely done away with paper certificates.

BLUE CHIPS. Shares of particularly well-known and established companies which have shown consistent growth over the years, have bright future prospects, and are expected to do well in the future.

BOND. An instrument of loan raised by the government or a company, at a specified rate of interest and date of repayment. Company bonds are more often called debentures.

BONUS SHARES. When a company's accumulated reserves are high, it may choose to issue bonus shares to existing shareholders in proportion to their share holdings. Thus the reserves get converted into share capital. The number of shareholders remains the same. Their proportionate shareholding also remains the same. Really speaking, an issue of bonus shares is like changing a 100-rupee note into notes of smaller denomination. Very often, a bonus issue is an indication that the management is optimistic about the company's future.

BOOK-BUILDING. The old practice regarding share issues in India was to offer them at a *fixed price* after informally assessing the market. The old system has been replaced by a *bidding system* in which bids are invited from the investors within a stated "Price Band". Every applicant has to indicate the number of shares applied for and the price he is prepared to pay. The bids received are arranged from the highest to the lowest. The *cut-off point* which will exhaust the entire issue determines the issue price to be charged to all investors. Those below the cut-off point would not be allotted any shares. (The actual system in India is somewhat more complicated because the applicants are categorised into Qualified Institutional Investors, Mutual Funds, Non-Institutional Bidders and Retail Individual Investors. Each category has a quota)

BOOK CLOSURE. Before a company declares a dividend, or issues bonus shares or rights shares, it closes its register of members for a certain period, usually from one week to a month, during which no transfer of shares is registered. Only those shareholders whose names appear on the register after the book closure are eligible to receive the dividends, bonus shares or rights shares, as the case may be. After the book closure, share price is quoted ex-dividend (xd), ex-bonus (xb) or ex rights (xr). Dates of book closure are announced by companies in advance.

BOOK VALUE. It is the value at which an asset is carried in the balance sheet.

BOOM. Period of economic prosperity or high level of activity. It is characterised by an optimistic outlook and upward movement of share prices.

BOTTOM-LINE GROWTH. The growth in net profit is usually described in market parlance as *bottom-line growth* because the net profit figure appears in the Profit and Loss Account as the remainder after charging all the costs, including the corporate income tax.

BULL. A stock market operator who believes that share prices are going to rise, and keeps buying to sell later at a profit.

BULL MARKET. Prolonged rise in the price of shares, caused by buying pressure from investors or speculators, based usually on favourable economic and political factors.

BUSINESS CYCLE. A period of time during which the general economic activity expands and then contracts, causing cyclical changes in production, prices and employment in the economy.

BUY ON MARGIN. To buy shares with money borrowed from the stockbroker.

CAPITAL GAIN. Rise in value of a capital asset (e.g. shares) over and above the purchase price.

CAPITAL MARKET. It is the market from which companies raise long-term capital for their operations. The stock exchange is a part of the capital market, because it provides money for establishing new or expanding existing ventures. It also helps investors to sell their shareholdings, thereby providing liquidity to such investments.

CAPITALIZATION OF RESERVES. A company can use its accumulated undistributed profits for issuing bonus shares to its shareholders, thereby transforming the reserves into share capital.

CARTEL. A *cartel* refers to a formal or informal organization of producers who agree among themselves to coordinate prices and production. Cartels usually occur in an oligopolistic industry, where there is a small number of sellers and usually involve homogeneous products. Cartel members may agree on such matters as price fixing, total industry output, market sharing, allocation of customers, allocation of territories, etc. The aim of such collusion is to earn higher profits by reducing competition among themselves. Cartels are not in public interest; hence governmental authorities try to prohibit such tendencies by establishing specialised agencies, like the Competition Commission.

CASH LIST. In the earlier days, the shares on the Bombay Stock Exchange were divided into two categories, viz., those in which forward trading in the form of badla was allowed (called forward list) and the rest (called cash list) in which forward trading was not allowed. After the introduction of futures trading in 2001, the badla system has been abolished. Of course, the futures trading is allowed in only a relatively small number of the more prominent shares which meet certain criteria.

CHURNING. Churning is the practice of some brokers to repeatedly buy and sell on the account of a client in order to generate more commission for own self but this can be done only with the client's consent. Some clients may give a free hand to their broker to indulge in churning on the belief that the broker has more knowledge about the market. However, there is always the possibility of the broker misusing the authority for his own benefit.

CLEARING CORPORATION. The essential function of the clearing corporation is to match and settle the trades executed in the stock exchange. Now-a-days, the clearing corporation interposes itself as the counter-party for every trade: every seller delivers securities to the clearing corporation and every buyer receives delivery from the clearing corporation. (See Counter-party Risk)

CLOSELY-HELD COMPANY. A company whose equity capital is held by a small group of shareholders.

COLLATERAL. An asset pledged against a loan. Marketable shares held by a person can also serve as collateral for a loan from a bank.

COMMON STOCK. Term used for equity shares.

CONTANGO. See *Backwardation.*

CONTINGENT LIABILITIES. Liabilities which a company may have to settle in the event of an unfavourable outcome of, for example, pending lawsuits, disputed claims, etc., as they represent potential liability. Such contingent liabilities have to be disclosed by way of notes after the balance sheet.

CONTRACT NOTE. It is given by the stockbroker to his client after executing a trade on the client's instruction. The contract note gives details of the transaction, such as the number of shares of such-and-such companies bought or sold at stated prices. It also shows the broker's commission separately.

CONTROLLING INTEREST. It means holding a sufficiently large number of shares in a company so as to be able to control its management and policies. Ownership of 51% of the equity shares in a company, or even a lesser percentage if the rest of the shareholding is widely dispersed, can give a person or a group the controlling power over a company.

CONVERTIBLE BOND. Bond which can be converted into shares at a pre-specified price. Such convertibility is usually intended to make the bond more attractive.

COUNTER-PARTY RISK. Every transaction in the securities market involves two parties, i.e., buyer and seller. The buyer's obligation is to pay the price and seller's obligation is to deliver the securities for fulfilling the contract. Counter-party risk arises if either party fails to fulfill its obligation. It used to be a serious problem in India. In today's system, the Clearing Corporation acts as the counter-party to every trade in the securities market. That is, the buyers and sellers of securities do not buy/sell directly to each other. Instead, the seller delivers the securities to the Clearing Corporation and the buyer receives delivery from the Clearing Corporation. This has completely eliminated the counter-party risk in the case of the securities market.

CREDIT RATING. The credit rating system is designed to evaluate a borrower's financial strength for repaying the money borrowed. The rating, which takes the form of symbols, is intended to indicate the probability of default by the borrower. Based on a borrowing company's rating, the lenders decide whether to lend or not to the particular borrower and what interest rate to charge. The highest rating is AAA (pronounced as Triple A) and there is whole lot of grades below it. A critical cut-off point is between investment grades and non-investment (i.e. risky or speculative) grades. CRISIL and ICRA are India's two leading credit rating agencies.

CRISIL. See Credit Rating.

CUM-BONUS. This refers to shares entitled to receive bonus shares. Buyers of such shares receive the bonus shares distributed by a company, provided the shareholder's name is registered with the company before the record date fixed by the company.

CUM-DIVIDEND. With dividend. The buyer of a share at cum-dividend price is entitled to the dividend declared if he buys the share before a pre-determined date for closure of the company's books, after which the price becomes ex-dividend (i.e. XD). The cum-dividend share price is naturally higher than ex-dividend price. The difference reflects the value of the dividend.

CUM-RIGHTS. The buyer of a cum-rights (CR) share is entitled to subscribe to the forthcoming rights issue announced by the company. The date upto which a share can be bought cum rights is announced by the company. After this date the share becomes ex-rights (XR). The CR shares are usually sold at a price higher than XR shares.

CURRENT ASSETS. These are assets which get converted into cash within usually a year. They include cash, marketable securities, accounts receivable, loans and advances, and inventory of raw materials or finished goods.

CURRENT LIABILITIES. Accounting term for money payable within the current accounting year, such as trade creditors, taxation and other provisions.

CURRENT RATIO. This is the ratio of current assets to current liabilities. Normally, for a healthy state of affairs, the current ratio should be more than one.

CURRENT YIELD. The annual interest paid on a bond as percentage of the bond's prevailing market price.

DALAL STREET. Popular name of the Bombay Stock Exchange, which is located on this street.

DAY TRADING. The act of buying and selling a position within the same day.

DEBENTURES. This is an instrument of corporate debt carrying a fixed rate of interest. A debentureholder is a creditor of the company. The tenure is usually 5-7 years. The terms "bonds" and "debentures" are often used inter-changeably.

DEBT-EQUITY RATIO. Also called financial leverage ratio. It is the ratio of the amount of debt raised by a company to the amount of shareholders' funds (i.e. equity capital plus reserves).

DELISTING. A company may be delisted from stock exchanges if it fails to fulfil the requirements for continued listing. Sometimes a company management may voluntarily decide to get the company delisted by buying back the shares from the public. (See also Share Buyback and Reverse Book Building.)

DEMAT SYSTEM. 'Demat' is the short form for dematerialisation of share certificates, i.e. doing away with paper certificates. In the demat system, the shares are held by shareowners in the form of electronic record in the Share Depository. There are two competing Share Depositories in India, viz. NSDL and CDSL. Each depository works through its agents who are called "Depository Participants" (DPs).

DEMUTUALISATION OF STOCK EXCHANGES. Stock exchanges had been traditionally started and controlled by member-brokers as organisations mainly to serve their own members. Demutualisation of stock exchanges means separation of trading rights from ownership and management. It leads to the removal of stockbrokers' control over the exchanges which are then run by professionals as corporate enterprises for profit, just like the other corporate businesses. A policy decision to demutualise all the stockbroker-controlled stock exchanges was taken by the Indian government in 2002. This had to be done because there were rampant malpractices in the stockbroker-controlled exchanges. Many steps and legal changes were required to complete the process of demutualisation by 2007.

DEPOSITORY PARTICIPANTS. See DMAT SYSTEM

DEPRECIATION. The loss of value over time in the case fixed assets due to wear and tear as also obsolescence.

DERIVATIVE. The term derivative means that it has no independent value. Its value is entirely derived from the value of the underlying cash asset. For example, the value of equity share derivatives is directly linked to the underlying equity shares. Similarly, the value of commodity derivatives is linked to value of the underlying commodity. Derivative contracts have fixed expiration date, mostly in the range of 3-12 months. They are used for hedging of risk temporarily due to price fluctuation. They take the form of futures. (See *futures contracts* and *futures market*)

DEVALUATION. Lowering the value of one country's currency against another country's currency by changing the exchange rate.

DIVIDEND. Payment made to shareholders, usually once a year, out of a company's profits. It represents the usual form of distributing profits to shareholders.

DIVIDEND YIELD. Companies usually declare dividend per share in the form of percentage to the face value of the share. For example, a dividend of Re.1 on a share of having a face value of Re.1 will mean a 100% dividend. However, dividend yield is computed by relating the dividend per share to the prevailing market price. For example if a share is priced at Rs. 230 and the dividend per share is Rs. 5, the dividend yield would be

$$\frac{5}{230} \times 100 = 2.17\%$$

DUTCH AUCTION. This is an auction system which starts with the highest bidder and goes on to successively lower bidders till the whole quantity of shares to be issued has been exhausted. The lowest accepted bid-price will then be applicable to all other successful bidders. There is no price band (i.e. maximum and minimum limits for bid price) in the auction system. The investors (bidders) are free to enter any price according to their judgement.

EARNINGS PER SHARE: It is one of the most widely used indicators of the worth of a share. It is arrived at by dividing the net profit after tax by the number of equity shares. It shows what a company has earned for each of its shares. Its popular short form is EPS.

EARNINGS YIELD. The earnings per share (EPS) as a percentage of the market price of the shares is called earnings yield.

EFFICIENT MARKET THEORY. This theory holds that the prevailing equity market prices already incorporate all the available information. In this sense, the market is efficient. Such a market would not offer any extra-ordinary gains. The market prices would change as and when new information becomes available. The chances of new information being good or bad may be regarded as 50:50, implying equal probability of prices moving up or down in a random manner. Such movement is called "random walk" in market parlance.

EQUITIES. The term refers to ordinary shares of companies.

FACE VALUE. This refers to the value of a share or bond as mentioned on the certificate. It is also known as *Par Value.* The market price may be different from the face value.

FERA. Foreign Exchange Regulation Act, 1973.

FERA COMPANIES. These are Indian subsidiaries of foreign companies. The Foreign Exchange Regulation Act required the foreign companies to dilute their percentage shareholding in the Indian subsidiaries to less than 40%. Many Indian subsidiaries used to be 100% owned by foreign companies. The foreign companies were required to dilute their ownership of subsidiaries by offering the shares of their Indian subsidiaries to Indian public. The shares of FERA companies were highly prized by Indian investors.

FLY-BY-NIGHT OPERATORS. Company promoters who disappear after collecting money from the public by floating a company.

FOREIGN INSTITUTIONAL INVESTORS (FIIs). These are institutional investors, such as pension funds, insurance companies, mutual funds, foundations, endowments, and many other financial institutions based abroad and registered with SEBI for portfolio investment in India.

FORWARD CONTRACT. A contract between two parties for purchase/sale of some defined commodity or securities to be delivered by one party to the other on a future date as per the terms agreed. It is a purely bilateral contract and is not meant to be traded on an organized exchange.

FUTURES CONTRACTS. These are standardized regulated contracts and are tradable on an organised exchange. The contract specifies the price at which delivery will take place on a future date. Such futures contracts exist in certain commodities as well as in the stock market. Every futures contract is for a fixed period and is settled on its expiry. The holder of the contract may gain or lose, depending on the difference between the holder's buying price and the price at the contract's expiry. During the period of the contract, the price at which it is being traded in the market goes on changing. One may buy or sell such contracts at any time and may do so for the purpose of speculation or for hedging.

FUTURES MARKET. A market where contracts for future delivery of commodities and certain financial instruments are traded.

GILT-EDGED. Securities which are regarded as extremely reliable investments. These are mostly government securities.

GLOBAL DEPOSITORY RECEIPT (GDR). GDRs represent securities listed outside the U.S., typically in London. GDRs and ADRs (see above) basically serve the same purpose, viz., enabling companies based in developing countries, like India, to raise capital globally by issuing depository receipts which are tradable in the exchanges of the developed world.

GOING PUBLIC. This refers to a company which offers its shares for the first time to the investing public.

GREY MAKRET. This is an unofficial market, in which new, not-yet-listed shares are bought and sold. It may give an indication of a share's likely demand and the likely price at which it will get listed. In fact, it is an illegal market and those trading in this market are punishable.

GROSS BLOCK. Value of a company's fixed assets, before depreciation. It covers assets such as land, buildings, machinery, office equipment, etc.

GROSS DOMESTIC PRODUCT (GDP). The value of total final output of goods and services produced within a country during a year. The term gross signifies that the value has been computed before charging depreciation.

HEDGE FUND. Privately operated funds having an aggressive and quick-footed style of investing in all types of markets, moving from one market to another, depending on wherever quick profits can be made.

HEDGING. A technique for protecting the value of an asset by undertaking a transaction to off-set the likely fall in its value due to price fluctuations over a given period**.**

HOLDING COMPANY. A company which holds enough, often over 50% of the voting shares in another company, thereby having a controlling power over the latter. A holding company may control several other companies which are called subsidiaries of the holding company.

HOSTILE TAKEOVER. Taking over control of a company against the wishes of its present management. The company so taken over is known as the target company. Such a takeover is usually resisted by the target company's management by using many ploys. A hostile takeover may sometimes succeed but not always.

INFLATION. The annual percentage increase in the general price level.

INSIDER. In the case of a listed company, an officer, director, or principal stockholder who has access to non-public information about the company is an insider. The insider is prohibited from using such information for personal gain. There are very strict penalties for such abusive use of inside information.

INSIDER TRADING. It means trading in the shares of a company by those who have access to confidential non-public information. The insiders can make extra-ordinary profits for themselves at the cost of the unwary public. Insider trading is punishable under the market regulations.

INTERIM DIVIDEND. Dividend distributed by a company during an accounting year even before the end of the year. The final dividend is declared after the year is over and the year's accounts have been finalized.

JOINT STOCK COMPANY. A company which has issued shares to the public is known as joint stock company.

LEVERAGED BUYOUT. Taking over control of an existing company, using a large amount of debt to finance the deal. The company so taken over is then restructured. Some divisions may be sold off to retire existing debt. Other divisions may be altered to improve efficiency and the company's public image in order to re-issue equity to public more advantageously. Sometimes, the existing management of a publicly owned company may use the leveraged buy out method. The term "leverage" implies the use of borrowed funds to a considerable extent.

LISTED COMPANY. It means a company whose shares are tradable on a stock exchange. Such a company has to fulfil a host of prescribed conditions intended to protect investors. Capital market regulations cover only the listed companies. (See also Delisting).

LISTED SHARES. These are shares of a listed company.

MARKET LOT. There used to be a fixed minimum number in multiples of which shares were bought and sold on the stock exchanges in India. If this requirement was not met, it was called "odd lot". Now, even a single share is tradable on the Indian exchanges.

MARKET MAKER. A market-maker has the responsibility of providing two-way (i.e. for buying and selling) quotes with respect to certain securities. This helps to maintain a fair and orderly market. The term jobber is also used for market makers.

MARKET ORDER. An order placed for buying or selling to be executed immediately at the best available market price.

MERCHANT BANK. Historically merchant banks are distinguished from commercial banks. Merchant banking business is now mostly concerned with managing public issues of capital on behalf of corporate enterprises. They are also involved in takeover bids and mergers by tendering advice to the parties concerned and managing the procedures involved.

MONEY LAUNDERING. This refers to ways of illegally transferring money in order to conceal its origin**.**

MUTUAL FUNDS: The essential purpose of mutual funds is to secure for small investors the advantage of diversification risk by spreading their investments over a fairly large number of securities. They are run by full-time professional mangers within a regulatory framework. There is a great variety of mutual fund schemes, such as equity schemes, bond schemes, balanced schemes, money market schemes, industry-schemes, etc. They have been known as investment companies in the U.S. and as investment trusts or unit trusts in the U.K.

NASDAQ. It is a U.S. based stock exchange providing trading facility for the shares of relatively small companies. It is an offspring of the NASD (i.e. National Association of Securities Dealers). The NASD dealers used to give two-way quotations (buy and sell prices) for several thousand small companies. These quotations used to be printed on Pink Sheets at the end of the day for general information. Some of the innovative companies achieved great success and began to be traded nationally. A screen-based Automated Quotation system was introduced for such companies. Thus, 'AQ' was added to 'NASD', making it NASDAQ. It is now the second largest U.S. exchange and internationally famous.

NET WORTH. This is equal to a company's total assets *minus* the liabilities to outsiders. See also *Balance Sheet*.

NEW ISSUE. The first public sale of equity shares by a company, either at par or with a premium.

NIFTY INDEX. Share price index started by the National Stock Exchange of India (NSE) in November 1995. It comprises 50 largest and highly liquid stocks listed on the NSE.

NIFTY JUNIOR INDEX. Commenced in November 1996. It comprises the next 50 large and liquid stocks listed on the NSE.

NOMINAL YIELD. The annual interest rate payable on a bond, specified in the indenture and printed on the face of the certificate itself. Also known as coupon yield.

ODD LOT. If the quantity of order is not in round lots, it is referred to as Odd Lot.

ORDER-MATCHING TRADING SYSTEM. In this system, investors place buy and sell orders, generally indicating the price limit for executing their order. The accumulated *buy* orders at any particular time are ranked according to the price limit (i.e. maximum buying price) which the various buyers are prepared to pay. The *sell* orders are separately ranked in order of price limit (i.e. minimum selling price) indicated by the various sellers. A buyer seeks the lowest available price while a seller seeks the highest possible price. For executing a buyer's order, preference will be given to the lowest seller; and, for executing a seller's order, preference will be given to the highest bidder. The matching system takes into account other factors also, such as quantities ordered and time priority.

ORDINARY SHARES. These represent the company's ownership and have voting rights in the company according to the number of shares held by the various shareholders. They are also known as equity shares.

OTC (OVER-THE-COUNTER) MARKET. A market for securities which are not traded on an organised stock exchange but involve the use of a dealer. Even the OTC markets have become highly automated now.

PAR VALUE. The face value of a share, debenture, or bond that is written on the certificate. The market price may be higher or lower than the par value.

PARENT COMPANY. A company which owns or controls subsidiary companies by means of owning a majority of voting shares. A parent company may or may not have a business of its own.

PARI PASSU. Ranking equally. After *conversion* from debentures, the new shares created carry the same rights as the other shares of the company to receive dividends, rights and bonus shares, and to participate in the company's profit and loss as equity shareholders.

PAYOUT RATIO. This is dividend per share as a percentage of the earnings per share. If the payout ratio is 40%, it means that 40% of the company's profits after tax have been distributed as dividend and 60% transferred to reserves.

P/E RATIO OR PRICE-EARNINGS RATIO. It is an indicator of how highly a particular company's share is valued in the market. It is arrived at by dividing the price of a share by the earnings per share (EPS).

PERPETUAL BOND. It is a bond with no maturity date. It pays the annual interest and is also known as annuity bond.

PREFERENCE SHARES. These are shares which are entitled to a fixed rate of dividend and have priority over the ordinary shares, both in the distribution of profits and the repayment of capital in case of liquidation of a company. They have no voting right in the company, unless their dividend is in arrear.

PRICE BAND. Companies making a public issue of shares specify a price band, i.e. the highest and lowest limits within which the investors may submit their bid price, together with the number of shares for which they are bidding. See also *Book Building*.

PRIMARY MARKET. This refers to market for new issues. Once a new issue has been made, it begins to be traded in the secondary market.

PROSPECTUS. This refers to the offer document published by a company making a public issue of shares and/or securities. It provides details about the issue being offered to the public, together with information about the issuer, such as nature of business, risk factors, past record of business performance, etc. Details have to be given about the directors and promoters of the company, including disclosure of serious blemishes, if any, such as any criminal offence committed and punishment undergone. (See also Red Herring Prospectus)

QUICK RATIO. It is a measure of the liquidity of a company. It is usually measured by relating current assets *other than inventory* to current liabilities. It tells us whether a company can quickly meet its current liabilities.

QUOTE-DRIVEN TRADING SYSTEM. A share trading system, which has market-makers (see above), giving two-way quotes, is known as quote-driven system.

RAIDER. A person who attempts to take over control of a company against the wishes of the company's existing management.

RANDOM WALK. The hypothesis that a company's share price wanders in a random fashion as the investors would have already taken into account all the known facts which go into determination of the share price. Hence, further changes are of random nature and no systematic prediction can be made. (See also *Efficient Market Theory*)

RECORD DATE. For the purposes of dividend distribution, as also entitlements to Bonus or Rights Issues, a company fixes a date on which a shareholder must officially own the shares in order to qualify for receiving these. The date so fixed is called the record date..

RED HERRING PROSPECTUS. This term has been borrowed from the U.S. It has come to be used in India relatively recently instead of the traditional simple term Prospectus. (Herring is an eatable fish. Red herring is a type of smoked herring which is used as a bait because of its strong scent. The Prospectus also has this character because it attempts to induce investors to invest in the share issue.)

REVENUE. In the case of companies, this usually refers to receipts generated by sales during a given period.

REVERSE BOOK BUILDING. This is used in case of "share buyback" by a company, i.e. when a company wants to buy back its own shares from the public, either in order to get the company delisted from stock exchanges or because the promoters and the controlling interests wish to increase their holding in the company. Such cases use the book building process in the reverse way, i.e. beginning from the lowest bid in order to minimize the buying cost.

RIGHTS ISSUE. Issue of shares at par or at a premium by an existing company to its shareholders in a certain proportion to their holdings, as a matter of their right. An existing shareholder may let his rights lapse, or may renounce his rights in favour of another person by signing the renunciation form.

ROUND LOT. A stock market practice has been that shares are purchased and sold in the form of normal trading unit which is referred as Round Lot.

SEBI. See Securities & Exchange Board of India.

SECONDARY MARKET. The market in which existing securities are bought and sold among investors.

SECURITIES & EXCHANGE BOARD OF INDIA (SEBI). Statutory Regulatory Authority for the capital market in India created by the government in 1992.

SECURITIES AND EXCHANGE COMMISSION. It is the regulatory authority for the securities market in the U.S., established under the Securities Exchange Act, 1934. It became the regulatory model for many countries around the world, including India.

SEED MONEY. Venture capital's first instalment of payments towards the capital requirement of a new business. Seed money provides the basis for additional capitalization to accommodate extra growth.

SENSEX. A short form of Sensitive Index, based on share prices of 30 leading companies in India. It was started by the Bombay Stock Exchange in 1978-79 and is the oldest share index for India.

SHARE BUYBACK. When a company buys back its own shares from the public, it is known as share buyback. (See Reverse Book Building)

SHARE CERTIFICATE. Documentary evidence of the ownership of a block of shares, indicating the face value of the share, the number of shares and their distinctive numbers, the certificate number, the holder's name and the folio number on the register in which the holder's name is entered. In the case of transfer of shares bought from the secondary market, such transfer was endorsed by the company on the back of the share certificate. After the adoption of the demat system, paper certificates have been abolished.

SHORT SALE. This refers to the sale of a security that is not already owned by the seller at the time of sale, necessitating its purchase some time in the future to "cover" the sale. A short sale is made with the expectation that the stock value will decline, so that the sale will be eventually covered at a price lower than the original sale, thus realizing a profit. Before the sale is covered, the broker/dealer borrows stock (for which collateral is put up) to deliver on the settlement date.

SPECULATION. The activity of buying and selling a commodity or financial asset usually with the aim of making quick profit from change in price.

STOCK DIVIDEND. Distribution of dividend by way of shares to the existing shareholders in lieu of cash dividend. This is done with a view to conserving cash. It is to be distinguished from issue of bonus shares (see above).

STOP LOSS. A client may order his broker to sell his shares if the market price falls to a certain level below the current price. It is a way of protecting one's profit, or reducing one's loss, while waiting for the market to recover. For example, one may have bought TISCO at Rs. 1000. Suppose that the price rises to Rs. 1500, and is expected to rise further. However, there is a risk that the price may fall. The investor wishes to protect the profit already made while waiting for further rise. He may therefore give a stop loss order to his broker to sell the shares if the price falls to Rs. 1400, so that his entire profit does not get wiped out.

TIGHT MONEY. An economic condition characterized by scarce credit, resulting generally from money supply restricted by the monetary authority.

TIME DEPOSITS. Deposits made with banks for a fixed period.

TOP-LINE GROWTH. Sales revenue growth is often referred to as *top-line growth* because it appears in the top line of the Profit and Loss Account. It is regarded as extremely important, first, because it indicates the position which a company occupies in the particular product market, and second, because it constitutes the ultimate source of profits.

TREASURY BILLS. These are short-term securities issued by the government, with a maturity date usually of three months to one year.

TREASURY BOND. These are long-term bonds issued by the government with long maturities, usually five years or more.

UNDERWRITER. The underwriter undertakes to ensure full subscription to a public issue of securities. In case the issue is not subscribed fully by the public, the underwriter has to take up the unsubscribed part.

VENTURE CAPITAL FUND. A company formed to provide *Venture Capital* to new or unproved enterprises which are in an early stage of development. The ordinary investors do not like to invest in such enterprises till they have matured. Many of these enterprises may be in new kind of businesses based on new technologies.

VOLATILITY. The tendency of market prices to fluctuate is termed as the market's volatility. Rise in volatility makes investing in shares riskier. In fact, technical measures of volatility have been designed as indicators of the degree of risk. An inherent reason for market volatility is the arrival of "new information", such as announcement of some important policy by the government, change in interest rates, publication of the latest economic data, etc.

WALL STREET. Popular name for New York Stock Exchange based on its location. Figuratively, Wall Street has come to mean the centre of stock market activities in the U.S.

WORKING CAPITAL. In accounting terms it is the difference between *Current Assets* and *Current Liabilities.* It is sometimes called circulating capital, as current assets and current liabilities are continuously turned over in the course of a year. Working capital does not cover fixed assets.

WRITE-OFF. Charging an existing asset as expense or loss. A common example of such write-offs is accounts receivable which have become irrecoverable. The write-off of bad debts would reduce the firm's income.

WRITTEN DOWN VALUE. It is the value of an asset after depreciation has been charged.

YIELD TO MATURITY. The calculation of an average rate of return on a long-term bond if it is held to its maturity date and if all cash flows are reinvested at the same rate of interest.

ZERO COUPON DISCOUNT BONDS. This is a form of debt security which offers no periodical payments of interest but only payment of full face value at maturity. Such bonds are issued at a deep discount from face value. The difference between the issue price and the face value represents the total interest over the whole period. The annual compound interest earned can be easily calculated from compound interest tables.

SUGGESTIONS INVITED

We shall welcome your suggestions about including any other terms in the dictionary for making it more useful and comprehensive. Comments are also welcome. Please email to: scmrd@bol.net.in