INVESTMENT Challenge

Glossary

Agent:
When a stockbroker acts on behalf of a client and has no personal interest in the order/trade

All-or-nothing:
The full order must be executed immediately, or, if it is not possible to do so, the order is rejected.

Allocation:
The number of shares actually sold to a person who has applied to participate in a new issue. If the issue is over-subscribed, the applicant may only get a small proportion of his total application. The balance of his money is refunded.

FTSE/JSE All Share Index:
The FTSE/JSE All Share Index represents 99% of the full market Cap of all eligible equities listed on the Main Board of the JSE There are roughly 140 companies in this index. The FTSE/JSE All Share Index can further be split by size into the Large Cap, Mid Cap and Small Cap indices.

Alternative exchange:
A market for small to medium companies in the growth phase. Here are some of the listing requirements that are less stringent than those of the mainboard of the JSE.
Requirements are as follows:

- Applicants must appoint a Designated Advisor ("DA").
- The applicant must have a share capital of at least R2, 000,000 (including reserves but excluding minority interests, and revaluations of assets and excluding intangible assets that are not supported by a valuation by an independent professional expert acceptable to the JSE prepared within the last six months).
- The public must hold a minimum of 10% of each class of equity securities.
- The directors must have completed the ALTX Directors Induction Programme ("DIP") or must make arrangements to the satisfaction of the JSE to complete it

Annual financial statements:
Sometimes known as an Annual Report, this is a document required by the Companies Act to be produced once a year for presentation to shareholders at the Annual General Meeting. These statements must consist of a balance sheet, income statement, directors' report and auditors' report in terms of section 286. These must be prepared in accordance with International Financial Reporting Standards (IFRS), and must fairly present the state of the company and its profit or loss for the year. The details are set out in Schedule 4 of the Companies Act and the statements issued by the South African Institute of Chartered Accountants (SAICA) and the International Accounting Standards Board.

Annual general meeting (AGM):
This is a meeting of the shareholders of a company, which is required by the Companies Act. The AGM must be held within six months of the end of the company's financial year. At least 21 days' notice of these meetings must be given to shareholders. At the meeting, the directors present the company's financial statements amongst other things. Shareholders vote at these meetings according to the number of voting shares which they hold.

Annualise:
The process of adjusting performance or return which has been made over a period of less than or more than a year so that it can be compared with the annual results of other entities. For example, if a certain share gives a return of 25% over a period of six months this would be annualised to 50%.

Arbitrage:
Simultaneous trading in assets, currency or bills of exchange in different international markets, to take advantage of the different prices in each.

Articles of association:
A document, drawn up by the subscribers of a company at its inception, which governs the internal affairs and management of the company. The articles deal with the nature of the company's shares, the transfer of shares, holding of meetings, powers and qualifications of the directors, etc. The articles must be lodged, together with the "memorandum", to the Registrar of Companies in Pretoria before the company can commence business. An example of the format of the articles is given in table A of Schedule 1 of the Companies Act.

Ascending formation:
A graphical indication that share prices are on an upward cycle.

Asset:
An item on the balance sheet that indicates the possessions of a company, an organisation or an individual. Assets can be tangible (e.g. a vehicle), or intangible (e.g. Goodwill). They can be non-current (e.g. Land, buildings, vehicles, office furniture) or current (e.g. stock, debtors, cash). A noncurrent asset is one which is held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used for period of more than twelve months, while a current asset is one in which the company trades (e.g. stock) or created as a result of trading and expected to be realised within twelve months (e.g. debtors for sales).

Asset base:
Money raised by a company as a result of issuing shares to the public is protected by the Companies Act from being distributed in the form of dividends. The general rule is that companies may only pay dividends out of profits, and not out of the money that was put into the company to set it up. There are exceptions to this rule. You can get a good idea of the asset base of a company by adding its share capital to its non-distributable reserves.

Asset backing:
A strong asset backing indicates that a company has large resources of assets. These may reside in a parent company, or they may belong to the company itself.

Asset management:
The management of listed or unlisted assets (equities, options, etc.).

Asset stripping:
This occurs where a company is purchased because the market price of its shares is less than the value of its assets. Assets are then sold and a profit is realised.

At best:
An instruction given to a stockbroker by his clients to sell or buy "at best" would give the broker freedom to purchase or sell the shares concerned at the price most advantageous to his client and as soon as possible.

At market:
An order to be transacted immediately against the best opposite order in the book at the time of making such entry.

ATS:
Automated Trading System (see SETS).

Attributable profit:
Profits after extraordinary items, taxation, preference dividends, and outside shareholders' interest, which are attributable to the company's ordinary shareholders. These profits are not usually distributed in total as a portion will be retained in the company to finance future growth.

Auditors' report:
A part of the annual financial statements where the auditors state that they have examined the statements and that in their opinion they represent a fair picture of the company's financial activities over the period in question. Occasionally, the auditors' report is qualified because they did not approve some aspect of the accounts or accounting controls. You should always read this report to see if the statements have been qualified.

Authorised capital:
The number of shares in each class which a company is authorised to issue to the public or in exchange for assets. The authorised capital must be stated in the Memorandum of Association, but may be increased or reduced. Once the shares have been purchased by the public or swapped for assets, they are known as issued capital.

Average cost:
A method of valuing shares at the average of what they cost. For example, if 100 shares are bought for 100 cents each and then a further 100 of the same shares are bought for 150 cents each, the average cost would be 125 cents per share.

Back office:
The department in a stock broking firm, which deals with settlement procedures, such as controlling electronic settlements on behalf of clients and the maintenance of accounts.

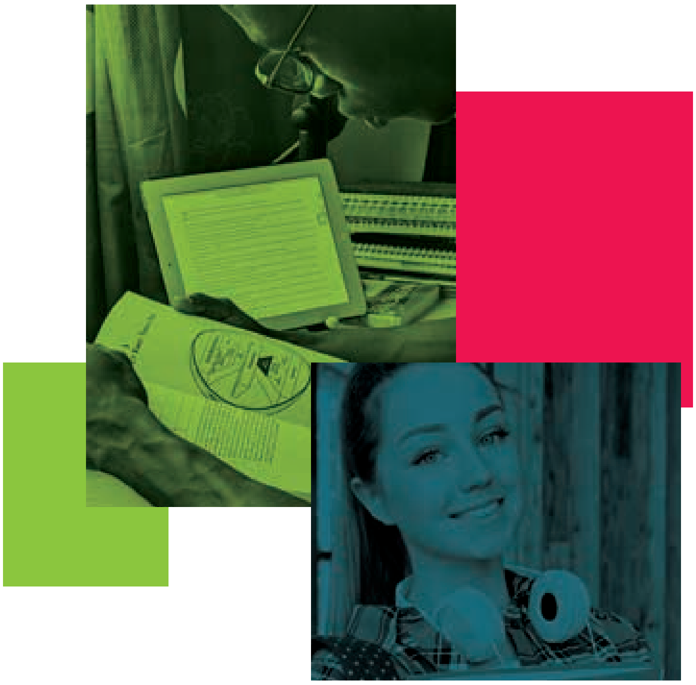
Bad debts:
This is a debt which cannot be recovered – thus forcing the company to write it off against profits. Most companies make provision for bad debts, a figure that is adjusted annually. When the economy is in recession, such provisions will tend to be higher, especially among banks. A provision for bad debts is a current liability.

Balance of payments:
The combined net position on the capital and current accounts of the country. The current account indicates whether South Africa is spending more foreign currency on imports than it is receiving for its exports, while the capital account shows how much money foreigners are investing in South Africa.

Balance of trade:
This forms part of the balance of payments calculation, but refers only to the difference between the values of exports offset against imports. While balance of trade will reflect the level of physical imports relative to exports, the balance of payments reflects nonphysical flaws such as capital and dividends to and from abroad, debt repayment and receipts, interest payments and receipts (the so-called invisible items).

Bear raid:
Where investors who have sold short (made bear sales) attempt to force the price of a share down by making further bear sales so that they can cover their positions profitably at lower prices.

Bear sale: A sale of shares before they are purchased. In reality, a bear sale (or short sale) is the sale of an undertaking to supply a certain number of shares at a specified date in the future.



Block:
A large amount of stock sold as a single unit. This term is most often used to describe a unit of 1000 shares or more.

Blue chip:
A low risk share, usually those in the FTSE/ JSE Top 40 index that has a history of sound management and steady dividends. Examples of such shares are Sasol, First National Bank, Pick 'n Pay, Standard Bank and MTN. Investors buy these shares for security rather than quick capital gains.

Bonus issue:
A term synonymous with scrip issue and capitalisation issue which describes shares given without charge to existing shareholders in proportion to the shares already held.

Book value:
This is the value at which an asset appears in the books, or accounts, of a company. Very often, book values are higher or lower than the real values of the assets, and can be misleading when considering the balance sheet. A good example of this is where a company buys land and records it in its books at cost. Over the years, the land usually becomes much more valuable, but no adjustment is made to the book value.

Boom:
This describes a stage in the business cycle when economic activity is increasing.

Borrowings:
This is a term used by share market analysts to refer to a company's long-term indebtedness. It excludes those current liabilities which arise as the result of normal business practice.

Bottom:
The lowest point in a share's price cycle. BOURSE: A European term for a stock market. For example, the Paris Bourse, or the Frankfurt Bourse.

Break-even:
A term used by accountants to indicate that a company has reached the point where it is not making a loss or a profit.

Break-out:
A technical term which indicates that a share price has moved clearly up or down after a period of relative indecisiveness or stagnation. A break-out is often a buy/sell signal.

Bridging finance:
This is a loan obtained by a company to tide it over a short temporary cash flow problem.

Broker's note:
A contract document sent to the buyer or seller of shares by his stockbroker to act as confirmation of the transaction. It shows the name of the client, the share or stock in question, the dealing price, handling charges, brokerage, STT and the nett proceeds of a sale, or amount owing for a purchase.

Brokerage:
The stockbroker's fee for completing a share transaction. Brokerage is usually calculated on a sliding scale depending on the total value of the transaction. Brokerage rates used to be set by the Registrar of Stock Exchanges (in consultation with the Minister and the JSE) but since deregulation of the JSE in November 1995 stockbrokers now set their own individual rates, for example the highest brokerage is paid on the first R5 000 or R10 000 of any transaction – whereas amounts over R1,5 million are charged at a lower rate.

An investor who believes that market trends are rising.

Bull trend:
A long period of consistently rising share prices, or index levels. Usually such trends last from 2 to 4 years.

Bullion:
Any precious metal (most commonly gold), which has not been processed into jewellery, coins, or used for any other manufacture. It is normally kept in bars known as ingots.

Business cycle:
The overall upward-peak-downward trough pattern that is followed by business activity. There are a number of theories about the causes of these cycles, but no real explanation for this. The share market tends to anticipate major changes in the direction of the cycle by about 6-18 months. The cycle normally lasts about 3 to 5 years.

Buyer's price:
The price at which someone is prepared to buy the shares at a certain time. On the price page of your daily newspaper this is shown at the close of the session reported on, usually under the heading "buy". It means that at the close of trade there was someone prepared to buy the shares at the price shown– but no seller was found at that price.

Buying pressure:
A high demand for a particular share or class of shares which exceeds the supply and so causes the price to rise.

Call options:
The purchased right to buy (call) specified securities at a specified price (strike price) within a specified period (American) or on a specified date (European). By the payment of a premium per share, the investor buys the right to demand a delivery of the shares at any time during the currency of the contract, at the ruling price when the call was purchased. This is useful when a sharp rise is anticipated, as the only immediate capital required is the call money, thus gearing the investment.

Capex:
An abbreviation for capital expenditure. It refers to expenditure of a capital nature – in other words used to purchase some sort of fixed asset.

Capital:
Money which is used to supply "working" capital or to purchase capital goods, which are to be used to generate the income of the company. Capital can also include the reserves of undistributed profit retained by the business. Share capital refers to the money raised as a result of the sale of company shares. Working capital is used to buy stock and finance debtors.

Capital gain / appreciation:
A capital gain is made when an investment is sold for more than its purchase price. (This must not be confused with the definition of Capital Gains Tax (CGT), as certain specific requirements must be met before SARS will class again as a capital gain for CGT purposes.) A dividend is an income gain, or the natural return on an investment. Capital appreciation occurs when shares or other investments are at a higher market price than when they were purchased. Until the shares are sold, no capital gain has been realised.

Capital structure:
This is the way in which a company has raised the capital needed to establish and expand its business activities or, more specifically, the number of shares and long-term loans in each class that have been authorised and issued. The McGregor BFA Quick Reference gives the capital structure of each listed company. The McGregor BFA Quick Reference can be purchased at leading news agents.

Capitalisation issue:
Also called ‘bonus issue", these do not involve transfer of cash between the company and its members. They occur when a company feels it desirable to convert part of its reserves (profits from earlier years which have not been paid out as dividends) into new shares. This often arises when the number of shares in issue is small in relation to the total value of the business. This makes them too scarce or highly priced to be easily traded. From a member's (shareholder's) point of view, the effect is to give him a greater number of shares than he already has. As the company itself has not grown any larger or smaller in the process, the percentage of his holding has remained unchanged; his stake therefore consists of more shares, each representing less of the company.

Capitalising loans / interest:
This is the process when loans or interest payable are converted to capital. This alters the gearing or borrowing ratio of the company by shifting loans into permanent capital. It also improves the operating performance of a company, whereas a loan usually carries obligatory interest charges (although many intercompany loans are interest free) which must be deducted from operating income to arrive at net income. Shareholders are only paid dividends if there is sufficient net income. Banks will often capitalise loans outstanding from a borrower who is in trouble, by converting the loan into capital but only if they perceive that the chances of recovering the money would be improved by doing so. By allowing the company to continue operating without the burden of monthly interest repayments and provided that company liquidation is unlikely to result, the bank hopes to fully recover the outstanding amount through dividend payments or by selling their equity once the company is functioning well.

Cartel:
A group of companies that together have a sufficiently large share of a particular product or industry so that they can force prices up by not competing with each other. An agreement is reached not to compete on price and what is effectively a monopoly is established. For example, the Organisation of Petroleum Exporting Countries (OPEC) controlled prices in the oil industry from 1973. A cartel is a type of monopoly and may be prevented by legislation, e.g. antitrust laws in the USA.

Cash asset / shell:
A company which has cash or near-cash as its only asset. Besides the income derived from investing this cash, these companies have no income- producing assets and are not conducting normal business in any industry. When a company becomes a cash shell (i.e. all the assets are sold off or transferred out leaving only cash in the company), it remains listed for a period of six months, during which time it must acquire viable assets and comply with the initial listing requirements of the JSE. The shares can be traded during this six-month period, but if at the end of this period the company has not acquired any viable assets, the share is suspended for a further three months. After this period, if it is still not compliant, its listing is terminated. They are often the subject of take-over bids by companies wishing to obtain a listing.

Cash flow:
This is the amount of cash coming into a company less the amount going out. Cash flow is important because a profitable company can easily go bankrupt if its profits are tied up in stock or debtors, leaving it with insufficient money to pay its creditors by the due date. Cash flow can be improved by reducing the “working capital" of the company.

Cautionary announcement:
This is a publicly advertised announcement made by a listed company to urge shareholders to exercise caution when trading in its shares. These announcements appear on SENS (Stock Exchange News Service) and in the newspapers whenever a company is involved in any activity (such as negotiating a takeover), which would materially affect the price of the shares. One of the reasons for publishing this information is to ensure that investors are protected from undue share price fluctuations when price sensitive information is imminent.

Chairman of the board of directors:
The chairman of the board of directors of a company is usually appointed by other directors. His position is in no way different from the other directors unless he is given a special mandate in the company's articles. In some companies this position is merged with that of the managing director, however with the issue of the King 4 report on corporate governance this practice is totally discouraged. Normally the articles provide that he should preside at directors' meetings and general meetings and give him a casting vote at directors' meetings.

Chinese wall:
A communications barrier between members or departments of a financial institution to prevent the transfer of price sensitive information. Chinese walls are imaginary but are taken seriously in an attempt to minimise conflicts of interest.

Close of trade:
When the share market stops trading at the end of each trading day.

Closing day of offer:
Last day on which an offer made by a company to its shareholders may be accepted (e.g. in the case of a rights offer or an offer to purchase a shareholder's shares in a take-over bid).

Close out:
All JSE equity derivatives have close out dates on which the contract expires. These dates happen quarterly at 12h00 on the third Thursday of March, June, September and December. Close out prices are determined by an auction process for JSE listed equities.

Closing price:
This is the price at which the last transaction of a particular share took place during the trading session being reported on. The uncrossing prices calculated during the closing auction call phase will form the closing prices for the day.

Commodity:
Basically these are raw materials/ tangible goods such as gold, silver, soya beans, sugar, coffee, steel, etc. Many commodities (such as gold) are traded in markets around the world and usually traded in USD. The gold price is set in these markets, so they affect any supplier of gold such as South Africa.

Common stock:
A term used in America to describe their equivalent of ordinary shares.

Conditional offer:
An offer made to the shareholders of a company conditional to the occurrence of some event.
Typically, where a take-over bid is being made, the predator will make an offer to shareholders conditional to its being accepted by more than 50% of the shareholders.

Conglomerate:
These are massive, sometimes multi- national, holding companies involved in a wide variety of industries.

Consolidation:
Consolidation of a company's shares into a lesser number of shares, each of which then has a greater nominal value.

Consumer goods:
Anything which is normally bought by consumers as the end user. This differs from industrial goods, which are bought with the objective of producing some other product or service.

Controlling shareholder:
A shareholder who owns more than 50% of a company's voting share capital and can therefore control the company's activities.

Convertible securities:
These are shares, debentures or other securities which are convertible either voluntarily or compulsorily into ordinary shares at some future specified date. Most commonly, some preference shares are convertible. This gives their owners a higher degree of security than buying ordinary shares because they can wait to see the progress of the company before deciding whether or not to give up their preferential dividend for the less secure but potentially more profitable ordinary dividend.

Corner:
This is when a share, which has been short sold, falls into the hands of a few investors who are unwilling to sell and who thus cause a bear squeeze. Also where one or a group of investors gain control of the supply of a product or commodity and can then influence the price to the industry.

Correction:
This term is used quite loosely to mean any short-term change in the direction in which a share or market is moving. More strictly, it refers to a temporary downward move in a bullish trend.

Creditors:
This is an item on the balance sheet, which is part of current liabilities. Creditors (more often called accounts payable) are all people and organisations to which the company owes money which must be paid within normal commercial periods of 30, 60 or 90 days. This is different from its long-term liabilities, which appear on the non-current liabilities side of the balance sheet.

Crossed market:
Where a quoted bid price is higher than the offer price for a security.

Cum div:
Shares are said to be "cum div" in the period between declaration of the dividend and the last day to trade. A sale of shares while they are "cum div" passes on the right to the next dividend to the transferee (or buyer).

Cumulative preference share:
A preference share accumulates its dividend in the event of the preferential dividend being passed for one or more years. Preferential dividends are paid out before ordinary dividends, but sometimes, when the company makes a loss or too small a profit t to meet the preferential dividend fully, then if the "prefs" are cumulative they will pay out any backlog before ordinary shareholders receive another dividend. This puts these preferential shareholders in a more secure position than normal preferential shareholders and ordinary shareholders.

Currency backing:
A hard asset, usually gold, that is used to back a national currency. Originally when paper money was first used, these were certificates certifying a deposit of gold at what were to become banks. In other words, it was fully backed by gold. Gradually all countries in the world have abandoned fully gold backing of their currencies, moved to partial backing and recently money is money because the government says so (fiat money).

Current asset:
An item on a balance sheet which includes any assets which can easily be turned into cash (have high liquidity) and which will only be held for a short time. Most commonly, these are stock, debtors and bank and cash balances. Pre-payments of expenses may also be included.

Current liability:
Any liability that must be paid within a year from the date of the balance sheet. These are mainly amounts owed by the company, which must be repaid within the normal commercial periods (30, 60 or 90 days). Typically, on the balance sheet you would find accounts payable (or creditors), overdrafts and provisions. Once a dividend has been declared, but before it is paid, it is a current liability.

Current ratio:
The ratio of current assets to current liabilities. The objective of this ratio is to determine whether the company can meet its short-term obligations out of its short-term assets (as these have the highest liquidity). If a company's current assets are less than its current liabilities then it probably has cash flow difficulties.

Cycles:
Shares, industries and markets move in cycles. There are three types of cycles: primary, secondary and daily fluctuations. Primary trends last from 2 to 5 years, secondary trends from 2 to 6 months and so called daily fluctuations from 1 to 10 days. If you observe the movement of a share you will probably be able to see certain definite cycles, especially if you draw a graph. You can take advantages of these cycles to fine- tune your buy and sell decisions.

Day's move:
The extent to which a share moves during the course of the trading day on the securities exchange. You will find the day's move quoted as a separate column in the newspapers, both in cents and as a percentage. In essence this shows the difference between one day's closing price and the next.

Debenture:
This is a form of long-term loan. A company issues debentures, usually at R100 each, at a fixed percentage return. Debentures are then redeemable at a certain specified date, but in some cases may be convertible into ordinary shares. Debentures are not part of the equity of the company. They differ from redeemable preference shares in that the interest is paid whether the company is profitable or not. Dividends on preference or ordinary shares need not be paid if the company is not profitable.

Debt / equity ratio:
The ratio of shareholders' equity in the company (share capital and reserves) to the company's borrowing. The company has two primary sources of capital: shareholders' equity (consisting of the money raised when the shares they hold were issued, plus any profits which have not been distributed as dividends), and money obtained in the form of loans from banks and other lending institutions. The debt/equity ratio shows who owns what in the business. For example if shareholders had only R1 for every R1,50 of the bank's shares the company would be "highly geared" and in danger of going beyond its credit worthiness. This means that the bank would effectively control the company by being able to close it down by simply calling in its loan.

Declaration date:
The date on which the board of directors declare their dividend. This date is given in the McGregor's Quick Reference for most listed companies. This date is worth noting for the shares which you are following.

Deflation:
The opposite of inflation. A period where the purchasing power of money increases in terms of a basket of goods and services.

Dematerialised scrip:
The elimination of certificates or documents of title which represent ownership of securities, so that securities exist only as electronic records.

Depreciation:
The process of charging the value of a fixed asset against the company's profits at the same rate at which it is expected to wear out or become obsolete. It would not be reasonable to charge the full value of a motor vehicle against the profits of one year when the vehicle is expected to last for 5 years. Therefore a system of changing 20% of the purchase price per annum could be employed (this is called the straight- line method of depreciation). Depreciation is sometimes applied on a "reducing balance method" where the percentage is charged against the balance remaining after the depreciation of previous periods. For example, if an asset cost R10 000 and was to be depreciated at 20%, the first year would be based on 20% of R10 000, but the second year would be 20% of the remaining book value of the asset (R8 000) and so on. Different assets may be depreciated at different rates using the straight line or reducing balance method for tax purposes. Depreciation also helps to build up cash in the business to replace the asset when it is worn out.

Directors' report:
Section 299 of the Companies Act requires companies to put before the Annual General Meeting (AGM). A director's report with respect to the state of affairs, the business and profitability of the company. The report has to deal with anything which materially affects the profitability and business of the company, and it must contain at least the information required by Schedule 4 of the Companies Act.

Discretionary account:
An account opened with a stockbroker where the client has entered into an arrangement with the stockbroker that authorises the stockbroker to conduct transactions on the client's behalf with full discretion and no prior reference to the client. The opposite of a non- discretionary account.

Distributable reserves:
An item on the balance sheet which appears on the capital and liabilities side. These are reserves that may be distributed to shareholders in the form of dividends because they have been built up out of the profits of the company.

Diversification:
The process whereby a company (or individual) spreads its investments among a number of different enterprises so as to reduce its exposure through one of them. Research conducted in America has shown that diversification of a portfolio reduces risk until approximately 15 different shares are held. Thereafter, the reduction in risk is immaterial while the effort of following additional shares remains the same. This is the reason why leaners are advised to hold between 5 and 15 shares.

Dividend cover:
The number of times the dividend could be taken out of the earnings. For example, if a company has earnings (profits) of R50 000 and pays out a dividend of R5,000 then the dividend cover is 10 times. If a dividend of R20,000 is paid then the dividend is covered only 2,5 times.

Dividend equalisation reserve:
A distributable reserve which is specifically set up to ensure that dividends remain stable despite changes in earnings. If a company normally pays a dividend of 10 cents per share, the directors might establish a dividend equalisation reserve so that this dividend level is protected in unprofitable years.

Dividend yield:
Dividends per share expressed as a percentage of the current market price. For example, if a company pays a dividend of R10,000 and it has 10,000 ordinary shares in issue (sold to the public) then the dividend per share will be 100 cents. If the current market price is 2,000 cents per share, then the dividend yield will be 5%. This shows that if you bought the share at its current price, and it continued to pay the same dividend you would receive a 5% return per annum.

Dividends per share:
A company's ordinary dividend divided by the number of ordinary shares in issue, usually expressed as a number of cents per share.

Dow jones index:
Various indices are compiled daily of the prices of securities on the New York Stock Exchange. The industrial average measures changes in the un-weighted arithmetical average of thirty leading industrial shares. There are similar indices for utilities, transportation, composite and bond averages.

Dual capacity trading:
Dual capacity trading was introduced following the deregulation of the JSE in 1995. It means that a stockbroker may act as a principal and as an agent in share dealing activities. In terms of the JSE rules, a broker must disclose to a client who wishes to buy or sell shares whether he is acting as a principal or agent, i.e. is he purchasing shares for the client from his own account or selling the client shares from the firm's own stock. The broker must disclose whether he is acting as a principal or agent in the deal to prevent conflict of interest. Until 1995, stockbrokers were limited to acting as agents connecting buyers and sellers on the market. This is known as single capacity trading.

Earnings:
Share market terminology for a company's after- tax profit.

Earnings per share:
A company's earnings (profit) divided by the number of ordinary shares usually expressed as a number of cents per share.

Earnings yield:
Earnings per share expressed as a percentage of the current market price of the share. For example, a company with 25 cents earnings per share and a market price of 250 cents would have an earnings yield of 10%.

Electronic settlement:
Settlement of securities transactions on a T+3 rolling and contractual settlement cycle through STRATE, the electronic settlement system.

Entrepreneur:
This is a "go-getter" who establishes and runs a business for his own account and shares in the risks and profits.

Equity:
That portion of capital which carries risk, and shares in profits through dividends that are dependent on profitability. Ordinary shares are often called equity shares, and other types of shares which carry less risk, such as convertible or participating preference shares are known as "near-equity". Equity is the share capital and reserves of the company – which is the same as its net assets (net of liabilities). You should be careful because in many instances the book value of assets such as stock and real estate is very different from the market value.

Exchange traded fund (EFT):
A low cost passive investment that will track a basket of shares representing an index, such as the Top40, Indi25 or Fini15 indices. The managing company psychically holds the shares in the fund for clients.

Exchange traded note (ETN):
The same as an ETF but usually used for tracking a commodity or hard to trade index and as such the managing company does not hold the underlying assets but does promise the investor to pay the related return.

Ex div:
A share is "ex div" once the last day to trade has passed. Any sales after the last day to trade are done on the basis that the dividend accrues to the seller, even if it has not yet been actually paid out.

Exposure:
The degree to which a portfolio or other investment is susceptible to risk from certain factors. For example, a share in a company whose main business is importing would be highly "exposed" to the rand/dollar exchange rate.

Fill or kill (FK)
The full order must be executed immediately or otherwise cancelled.

Final dividend:
The dividend paid when the directors know what the final profit for the year will be. Added to the interim dividend, this gives the total dividend for the year.

Fixed income:
These are investments which give a set return, such as preference shares, bonds, debentures and savings accounts.

Foreign reserves:
A reserve of precious metals and foreign currencies kept by the South African Reserve Bank.

Free -dealing:
A term used to describe listed shares which trade in large volumes regularly and can be bought or sold freely on the securities exchange. You should be careful of shares which are "tightly held" because you may have trouble finding a seller, and in particular you should not short-sell them as you will have difficulty covering your position.

FTSE /JSE Africa Index Series:
The FTSE/ JSE Africa Index Series is designed to represent the performance of listed Southern African companies, providing investors with a comprehensive and complementary set of indices, which measure the performance of the major capital and industry segments of the African market.

FTSE /JSE All Share Index:
The FTSE/ JSE All Share Index represents 99% of the full market Cap of all eligible equities listed on the Main Board of the JSE. There are roughly 140 companies in this index. The FTSE/JSE All Share Index can further be split by size into the Large Cap, Mid Cap and Small Cap indices.

FTSE /JSE Gold Index:
The FTSE/JSE Gold Index consists of the companies in the gold sector that also belongs to the FTSE/JSE All Share Index.

FTSE /JSE Top 40 Index:
The FTSE/JSE Top 40 Index represents the forty most investable companies on the JSE. These are constituents of the All Share Index (J203) and are ranked by net market capitalisation. The number of instruments can exceed forty, as some companies issue multiple equity instruments.

Gearing:
The relationship of a company's borrowings to ordinary shareholders' funds. A company can obtain the finance it needs to conduct its operations from two sources: by the issuing of its ordinary shares and by borrowing from third parties. The ratio of the one to the other determines the company's gearing. This ratio is also sometimes called the debt/equity ratio. We say that a company is "highly geared" if the borrowings from external sources exceed the shareholders' capital by an excessive amount.

General offer:
An offer made to all shareholders of a company for the purchase of their shares. The purchase price could be in cash or in shares of a predator company or a combination of both.

Going public:
A term used to describe the sale of shares of a privately-held company to the public for the first time via an Initial Public Offering (IPO).

Green chip companies:
Environmentally friendly companies.

Group company:
The holding company of a number of subsidiaries. Such companies produce group consolidated accounts once per annum, showing the consolidated position and performance of the holding company and all the subsidiaries.

Growth stock:
An American term which refers to a share whose revenues and profits are in a phase of expansion over the long term, and whose earning peaks are still believed to be a long way in the future.

Hedge against inflation:
Any tangible or hard asset which can be used to protect the investor against depreciation in the value of currencies. Gold and other precious metals are typically the most popular hedges against inflation and this causes these metals to be closely related to the level of world inflation – the higher the rate of inflation, the higher the gold price. A word of caution – this does not refer to inflation in SA, but rather to inflation in America and the western world generally.

Hedge:
Action taken by an investor or speculator to protect his business or assets against a change in prices, usually a downfall. For example, if an investor holds a large number of listed securities in a particular company which are not readily traded on the JSE and he is apprehensive as to the possibility of a sharp decline in the price of such securities, he can buy a 'put option' to sell them at today's price, which for a fraction of their current value will protect him if the price does fall, without him having to sell these difficult to obtain shares now, based on apprehension.

Holding company:
Any company which owns more than 50% or has majority of voting rights of another company, or can be said to have effective control over the appointment of its directors.

Income:
In accounting terms, this refers to all revenues received by a company, both as a result of its sales and other sources such as interest, dividends or rent.

Index:
A stock market index is a listing of stocks and a statistic reflecting the composite value of its components. It is used as a tool to represent the characteristics of its component stocks, all of which bear some commonality such as trading on the same exchange, belonging to the same industry, or having similar market capitalisation.

Industry:
A group of companies engaged in similar operations. Their shares are grouped into industries called "sectors" in your daily paper.

Initial margin:
Also referred to as a 'good faith deposit', an initial margin is the initial deposit required prior to trading a Single Stock Future. The initial margin is calculated to cover the highest possible loss that a position can incur in one trading day. The JSE Investment Challenge requires an additional percentage over and above the JSE's initial margin requirement.

Insider trading:
The illegal dealing in shares by people who, because of their privileged position, have information that materially impacts on the value of the shares, before that information has been made public.

Institutional investor:
An organisation (as opposed to an individual), that invests funds arising from deposits, premiums, etc. examples are insurance companies, mutual funds and investment trusts.

Intangible assets:
Any asset which is not concrete. For example, goodwill or patents, which belong to the company, are not represented by any physical object, but refer to the company's rights to something or the reputation that the company has in its industry and market. These are very often not reflected in the financial accounts.

Interest rate:
The price of money. Money behaves in much the same way as a commodity, in the sense that when it is in short supply, it becomes more expensive and vice versa. The interest rate is the cost of borrowing it and the reward for lending money. There are a variety of different interest rates, which apply to different types of money. For example, the prime overdraft rate is the rate at which the banks' most credit worthy clients borrow on overdraft; the banker's acceptance rate, or BA rate, is the rate at which the banks discount short term paper over say 90 days and so on. The size of the money supply is a primary determinant of the interest rate, and also the point in the business cycle. A fall in interest rates is normally seen as an indication of a pending upswing in the economy.

Interim dividend:
A dividend paid out by the company when the directors have received the interim (half year) financial results. The final dividend is paid when the final profits are shown in the final accounts.

Intrinsic value:
The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value. Value investors use a variety of analytical techniques in order to estimate the intrinsic value of securities in hopes of finding investments where the true value of the investment exceeds its current market value.

Inventory:
Another word for stocks of raw material, work in progress, consumable stores and finished goods. The valuation of the inventory is critical to the balance sheet.

Investment:
An asset on the balance sheet that refers to the shares held in a company or loans granted to other companies, which do not amount to a controlling interest. The Companies Act requires these to be split into listed and unlisted investments, and this is usually done in the notes to the company's financial statements.

Investment holding company:
A company which holds shares in other companies as subsidiary or associate companies.

Issued capital:
The portion of the company's authorised share capital which has been allocated to shareholders.

JSE trustees (Pty) Ltd:
A company formed by the JSE to hold, invest and safeguard the surplus funds belonging to a client and held by a broker who is operating a controlled account on behalf of the client.

JSE monthly bulletin:
An extremely useful document, the bulletin gives details of the month's trading on the JSE of all the listed securities, including preference shares and other listed instruments. Of particular importance is the section at the back which gives details of rights issues, capitalisation issues, share splits, consolidations and other major changes in share capital.

JSE rules and directives:
Rules and directives established by the JSE to govern all the workings of the exchange in terms of the Securities Services Act of 2004.

Judicial management:
Where a company is wound up for financial reasons, it is sometimes the case that it could have been saved had it been managed well. Judicial management was introduced to assist this type of company to overcome a temporary setback without going out of business. A judicial management order usually gives the company a moratorium on its debts. Essentially, the court replaces the directors. A provisional judicial manager is appointed to assume control until the final judicial manager can be appointed. Application for judicial management may be made by the company itself, a creditor or a member. If the judicial manager cannot return the company to solvency, then he may recommend to the court that it be wound up. This is more frequently referred to as business rescue these days.

Last day to trade:
The last day to trade (LDT) in securities, which are subject to a corporate action, in order to ensure settlement on record date (RD) and qualify for the entitlement.

Last transaction price:
The price at which a certain share was last traded. This information is normally reported on the price page of your newspaper in a column headed "last". It is sometimes called the "closing" or "ruling" price. Normally, papers report on the position at the end of the afternoon session.

Leading indicators:
These are indicators which tend to anticipate movements in other indicators. For example, the paper and packaging industry tends to start experiencing better conditions before the rest of the economy because almost all products have to be packaged before they can be sold.

Legal persona:
This is a legal term that refers to the fact that, in addition to natural persons, companies are also considered by law to be persons independent of their owners or managers. Legal persona gives companies the two essential features that they need to attract capital from the investing public – separation of the ownership from the management of the company and limited liability. This ensures that shareholders (unlike partnerships and sole traders) are only liable up to the value of their shares.

Liability:
An accounting term, which records monies owed by the company to outsiders. The most common forms of liabilities are long-term loans such as debentures, and short- term loans (normally called creditors). These amounts are added to the liabilities side of the balance side. They are credit balances in the ledger, and essentially they show the source of the company's debt finance.

Limit order:
Limit order types are orders that stipulate both a volume to be bought or sold and a limit price. Limit orders will always execute at the specified limit or better. LIQUID ASSETS: Assets that can be readily converted into cash. Normally, these are current assets such as debtors, stock and obviously cash or bank balances. The "liquidity" of an asset is the speed and ease with which it can be turned into cash.

Liquidation:
The process whereby a company is dissolved. The court, the company itself, a shareholder, the Master of the court, the judicial manager, a creditor, or the minister may initiate such dissolution. A liquidator is appointed, who arranges to sell off all the assets of the company and uses the proceeds to pay its creditors (firstly the secured creditors and then the unsecured ones). Once the creditors have been paid then the preferential shareholders are paid, and then finally the ordinary shareholders are paid.

Liquidity:
The ability of a company (or person) to raise cash on short notice, usually with a view to meeting debts, unexpected expenses, or to take advantage of opportunities. It is wise to keep a portion of your wealth in cash so that you will be able to take advantage of unforeseen opportunities (or meet unforeseen expenses) without being forced to sell shares at a time which may not be advantageous. Excessive liquidity usually means that the company or individual is overly conservative and is not reaping the full benefit of investment opportunities.

Liquid or illiquid securities:
The JSE's market controller monitors the level and frequency of trades in listed securities and determines and publishes the schedules reflecting those securities which for the purpose of determining specific risk, capital adequacy of members and margins payable, are to be treated as highly liquid, normally liquid and illiquid.

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Listing:
The right to trade a particular security on the exchange. The JSE has stringent requirements for companies seeking to have their shares and other instruments listed. Securities may be listed in the industrial, or mining or financial sectors, etc or on the Alternative Exchange (AltX). Here are some of the listing requirements for mainboard listings:

- A subscribed capital of at least R50 million in the form of at least 25 million shares;
- A satisfactory profit history over the last 3 years;
- Audited profit of R15 million before taxation.

Local counter - party transaction:
A transaction where a member firm trades as a principal with a person in South Africa, other than a member firm in South Africa.

Long position:
A long position exists when a trader buys and holds any security in the belief that it will increase in value. A long Single Stock Future position implies that the holder wants the price of the underlying share to increase.

Long-term liability:
A debt, which is to be repaid over years rather than months. A good example of this would be debentures, which carry a fixed percentage, return and are redeemable by the company at some future date. Long-term liabilities are found on the liabilities side of the balance sheet immediately below share capital and reserves under the heading 'Noncurrent liabilities'.

Management buy-out:
The acquisition of all or part of the share capital of a company by its directors and senior executives. The management is usually assisted by loans from an institution.

Marginal producer:
A term usually applied to mining companies with a very high cost of extraction and therefore a low margin. If their cost of extraction is close to the gold price, then very small fluctuations in the gold price can easily increase or decrease their profitability substantially. This is reflected directly in their share price, which tends to fluctuate widely for relatively small changes in the gold price.

Mark-to-market:
Calculation of the difference between the contract price and the market price.

Market appreciation:
The difference between what was paid for a share and its current market price. This is distinct from the realised profit, which can only occur if the share is actually sold and the money is in the bank.

Market breadth:
The extent or scope of change in share prices. Market breadth is most often measured by analysing the number of shares that advanced or declined during the period or by counting the number of shares in issue by their current market price.

Market order:
An order given to a broker with no price limitation. The broker is instructed to obtain or sell a specific number of shares "at best" – as opposed to a limit order, where the instruction is only valid above or below a pre- determined price. In practice, the broker may inform you if the price has changed dramatically, and give you a chance to reconsider.

Merger (also called an amalgamation):
This occurs where two or more companies come under the control of one, whose shareholders then become the shareholders of the companies that were merged. Sometimes one of the two merged companies is used as a vehicle for the merger, and sometimes a totally new company is formed for this purpose. A merger is seen as distinct from a "take-over" or an "absorption".

Minority interest:
A shareholding of less than 50% of the total issued share capital of a company. Companies work on the principle of majority rule – decisions are made by the majority of votes in the company. Because ordinary shares usually have one vote each (although there are sometimes voting and non-voting ordinaries), this means that whoever controls at least 50% of the shares controls the activities of the company. The Companies Act goes to considerable lengths to protect minority shareholders from any unlawful actions of the majority – or any actions, which are not in the interest of the company as a whole. Any such action could constitute what is called a "fraud on the minority". When looking at the consolidated accounts of a company it is common to see a minority interest shown. This means that the holding company has subsidiaries in which it holds less than 100% of the share capital. The holding company is obliged by law to consolidate the whole of the subsidiary into its accounts, and therefore must itemise that portion which belongs to minority (or "outside") shareholders.

Monetary policy:
Monetary policy is the control of the economy by changes in the money supply, as a result of changes in the level of interest rates, and the percentage of money that banks are required to lodge with the Reserve Bank. This is opposed to fiscal policy, which involves the level of government spending and taxation.

Money market:
The money market does not take place at a central place; it is really a communications network which allows banks, money brokers, businesses, discount houses, the government and the Reserve Bank to deal with one another and arrange short term lines of credit with one another. Money brokers and discount houses conduct the market in a full time capacity, and in fact constitute the market.

Money supply:
The total amount of money in the country. There are various methods for measuring the money supply, itemised under "M1, M2 and M3".

Monopoly:
The situation where one business controls enough of the supply of a product or service to be able to force the price up by being the only supplier. A good example of this used to be De Beers, which had a virtual monopoly in the diamond market. Monopolies are discouraged in most western capitalist countries because they tend to lead to artificially high prices and inferior products. In the USA anti- trust legislation attempts to prevent monopolistic mergers and take-overs.

Morning fix:
A fixing of the gold price in London at a fixing session. This is done by five leading bullion houses, by matching supply and demand to equalise at a certain price. There is also an afternoon fix.

Moving average:
The most commonly-used technical indicator in the world, this is often used in conjunction with other indicators. To calculate a moving average on a data stream (such as a series of daily share prices), it is necessary first to decide on its period. The shorter the period the more sensitive the signals.

Net current assets:
The difference between current assets and current liabilities. In most healthy companies, this difference will be positive, so that the company is always able to meet its short-term creditors from its short-term assets.

Net operating income:
The profit for the year over a specified period.

New issue:
A listing of a new security or an issue of more shares in an already listed security.

Net income (also referred to as net profit or net earnings):
The earnings of an organisation after deducting taxation and all other expenses. This is obviously an important measure of a company's performance, but one should remember to allow for the inflation rate when comparing one year's net income with another's.

Net worth:
The value of the assets of a company less the value of its liabilities. It is common to hear investors saying, "A particular share is trading at 20% below net worth". What they mean is that if the company were to sell all its assets and pay off all its liabilities, the balance would be 20% more than its current market capitalisation. This then makes the share good value at the current share price.

Newsletter or press release:
An announcement made by a company, either voluntarily or to comply with legal requirements, to inform the public of some material development which will impact on shareholders. Typically, profit warnings, rights issues, capitalisation issues, consolidations, pre-listing statements, interim and final dividends, annual financial statements and many other announcements are made through the press. You should study these carefully because they often offer good opportunities for profit.

Nil paid letters:
Are securities that are tradable but originally posed no cost to the seller. Nil paid letters are the result of a rights issue to the existing shareholders (or debenture holders) of a company. A rights issue is one way of raising additional capital by offering existing shareholders the opportunity to take up more shares in the company – usually at a price below the market price of the shares. These rights are represented by the "nil paid letter" and are renounceable

- This means that they may be bought and sold on the stock exchange. You will see them from time to time on your price page. They are normally very volatile because they fluctuate according to how close the market price is to the "take-up" price.

Nominal or par value:
Value given to shares when they are created, which established the authorised share capital of the company. This has nothing to do with the true value of the shares and usually does not bear any relationship to the market price.

Nomine:
A person or company nominated to perform some function on behalf of a principal. In the share market, the nominee typically registers shares in its name on behalf of the principal. Usually the nominee is a private company – and this makes it difficult to discover who actually owns the shares. However, since the introduction of section 140A into the Companies Act, all nominees are obliged to advise all listed companies of the beneficial owners of the shares that they have registered in their name as nominees, at the end of each calendar quarter.

Non-current asset:
An asset which is expected to last and be useful for a number of years, and which is held for use in the production or supply of goods or services, for rental to others or for administrative purposes. Such assets are depreciated over their expected lives. Examples are land and buildings, vehicles, furniture and fittings, office equipment, plant and machinery, etc.

Non-distributable reserve:
That portion of accumulated shareholders' equity which may not be distributed in the form of dividends. The Companies Act is at considerable pains to maintain the share capital (or asset base) of a company and to prevent minority shareholders from being defrauded by the majority. Because of this, the shareholders' equity is clearly divided into two main areas – contributed (or paid-in) equity and accumulated equity.

Notes to the accounts:
These form part of the annual financial statements of a company. They supply more information on the figures contained in the financial accounts, according to the requirements of the Companies Act. It is very important to consider these notes carefully before buying the shares of the company. They often contain important information, which the company has preferred to show as a note rather than in the balance sheet, income statement, statement in changes in equity or cash flow statements. For example, any change in accounting policies is usually contained in the first note, and these can be very important to the final profit or loss picture. Other items that are covered are a breakdown of investments into listed and unlisted, directors' emoluments, a breakdown of fixed assets, auditors' fees, details of borrowings and so on.

Open order:
An order still pending or on the books to buy or sell securities, but not yet executed. An open order will remain in effect until it is either executed or cancelled or subject to validity constraints (i.e. when entered, they specify an expiry date and/or time). Good till date/time (not more than 90 calendar days from the date of entry), at which point it expires.

Options:
The purchased right (not obligation) to buy (call) or sell (put) specified securities at a specified price (strike price) within a specified period (American) or a specified date (European).

Order:
An instruction from a client to buy or sell a specified quantity of securities at a set price (limit), or at best, an instruction to amend or cancel a prior instruction to buy or sell securities.

Ordinary share capital:
Capital of a company represented by the number of its ordinary shares.

Ordinary shares:
Also sometimes called "equity" shares, which share in the profits and risks of the company. Unlike the fixed dividend paid to preference shareholders, the ordinary dividend is decided by the directors, and is dependent on the company's profits. If the company is liquidated, the ordinary shareholders share out the proceeds after the creditors and preferential shareholders have been paid out.

For these reasons, ordinary share prices tend to be far more volatile than preference shares, giving opportunities for capital gains. Most of the shares published in the newspaper are ordinary shares.

Over -priced:
This describes a share which has a market price in excess of its "real" value – in the opinion of the person who uses the term. The real value of a share is always a matter of opinion, and at any one time some investors will regard a share as over-priced – while others will consider it to be under-priced – and if the opinion of pessimists carries more weight than that of the optimists, the market price will fall and vice versa. At any point in time, the market price represents the algebraic average of all investors' opinions relating to the share's real value, while technical analysis is the search for that real value, and is the study of investors' opinions concerning the real value – as reflected in the share's price pattern.

Over -reaction:
A situation which arises after news concerning a share is disseminated and investors push the price to levels beyond reasonable discounting of the news - i.e. they over-react. Such situations can give good profit opportunities to the astute and level-headed investor.

OTC market (over-the-counter market):
A market which is normally not licensed or an informal market for the trading of securities. There is therefore no formal settlement through a clearing house nor is risk formally managed.

Over -subscription:
This occurs where the applications for a new issue of shares exceed the number of shares available for issue. This often happens because the shares are offered to the public at a price below their inherent value and people obtaining the shares can make an immediate "stagging" profit when the shares are listed.

Paper profits:
The difference between the purchase price of a share and its current market price. Another term for this is "market appreciation". There is a potential danger in this figure, because it may not be possible to sell the shares at their market price.

Par value:
Value given to shares when they are created, which established the authorised share capital of the company. Normally, the market price quickly exceeds the par value as the company grows and make profits. The objective of the par value is to enable the "asset base" of the company to be clearly established at its inception so that no illegal erosion of that base can take place.

Participating preference shares:
Preference shares which participate in the profits beyond a fixed percentage. For example, they might receive an additional 2% if the ordinary dividend is above 8%, or, over and above their normal fixed percentage they might receive 10% of the ordinary dividend.

Penny stock:
Shares which trade for low prices per share. They may be shares of a very good company; however, they are usually not. They are attractive to speculators who can generate returns based on big percentage increases.

Political risk:
Risk, which is political rather than economic, financial or managerial. This kind of risk is very difficult to determine and can cause tremendous fluctuations in the market.

Portfolio manager:
This is someone who manages portfolios on behalf of investors. He makes the investment decisions and is not usually obliged to get his clients' permission to change their investments if there is a discretionary mandate in place. He could be paid a set fee or a performance related fee, and is not liable for any losses sustained by his clients.

Portfolio structure:
The percentage breakdown of a portfolio over the various market sectors.

Preference share:
(Prefs) Shares which have preferential rights in relation to another class of share in the same company. These rights consist of:

- The right to receive dividends before ordinary shareholders
- The right to receive a dividend which is a fixed percentage of the nominal or par value of the shares
- The right to a preferential repayment of capital in the event of the liquidation of the company. Prefs are generally uninteresting to any but the most conservative investor who has an income portfolio because their prices tend to remain more or less static, in line with their fixed dividends.

Pre-listing statement:
A public press announcement required by the JSE before the listing of a company, which is not accompanied by a new issue of shares and therefore a prospectus. It is felt that the investing public needs the same type of information that is usually contained in a prospectus before they buy shares on the JSE.

Premium:
A general term used to describe the difference between the price at which a share was first issued and the current price. Often, a successful company wants to issue additional shares to raise the capital for expansion. The price of these new shares will reflect the growth of the company since its incorporation and so they will be sold for more than the selling price of shares of the same class when the company was first formed. The additional amount in excess of the par value is a share premium, and is shown separately in a share premium account which is reflected under Non-Distributable Reserves in the company's balance sheet.

Price/earnings ratio:
The market price of a share divided by its earnings per share. This gives the reciprocal or the earnings yield, and is used by some investors to compare shares.

Price range:
The difference between the highest and lowest prices at which a particular share has traded over a certain time period – such as one trading day, or one year. The range is a good indication of the volatility of the share.

Primary market:
The market for shares when they are first sold by a company to raise capital. New issues and rights issues are examples of activity on the primary market. Once the company has sold the shares, they enter the secondary market and are sold and bought by members of the public without in any way changing the capital structure of the company.

Prospectus:
This is a requirement of the Companies Act for every offer of shares to the public. It must be lodged with the Registrar of Companies, and must conform to Schedule 3 of the Companies Act. The purpose of the prospectus is to ensure that members of the public wishing to purchase the shares on offer are aware of certain key information concerning the company and its directors.

Provision:
An item on the balance sheet that falls under liabilities. A provision is "raised" when the company has an expense for which it has not yet received an invoice and therefore does not know the amount. The provision is an estimate, which is charged against profits because the expense was incurred in the accounting period, which is being reported.

Proxy:
A document, signed by a shareholder of a company, which entitles a person (who is not necessarily a shareholder of that company) to attend shareholders' meetings, speak and vote on behalf of the shareholder of the company.

Public company:
A company as defined by the Companies Act may issue shares to the public, has no restrictions concerning the number of shareholders, or the transfer of shares from one person to another. Public companies may have their shares listed, but may not necessarily list. Public companies must have at least 7 shareholders, but there is no upper limit to the number of shareholders. They are also required to lodge their annual financial statements with the Registrar of Companies.

Put option:
The purchased right to sell (put) specified securities at a specified price (strike price) within a specified period (American) or a specified date (European). By the payment of a premium per share, the investor buys the right to deliver the shares at any time during the currency of the contract, at the ruling price when the put was purchased. This is useful as a hedge when a sharp drop is anticipated, as the only immediate capital required is the put money (premium).

Rally:
A temporary upturn in the price of a share or index or other data stream, which occurs during an overall bear trend. The opposite of a correction.

Ratio:
The relationship between two figures from the financial statements, designed to show the profitability or effectiveness of the management within a company. Ratios have no absolute significance, and are only relevant for comparisons over the history of the company or between companies in the same sector.

Realised profit/gain:
A profit, which is actually in the bank, as opposed to a market appreciation. If you buy shares for R10 and they rise to R12 then you have a market appreciation of R2. Only if you then sell them at R12 will you have a realised profit of R2 less your dealing costs.

Recession:
A cyclical period of lower economic activity, occurring at regular intervals; as opposed to a depression, which is a period of major economic downturn with high unemployment and declining gross national product. The technical definition is two consecutive quarters (or more) or negative GDP growth.

Record date:
The day determined by the issuer on which the holding, upon which the entitlement is based, is ascertained.

Redeemable:
This refers to preference shares or debentures, which are issued with the specific undertaking that they will be paid out by the company at a certain future date. These are really a form of long-term indebtedness, which clearly have to be paid back to the lenders on pre-determined dates. The only real difference between redeemable "prefs" and redeemable debentures is that the debentures are units of loan capital and receive interest, while the prefs are share capital and receive dividends – which may not be paid if the company is not making a profit.

Redemption date:
The date on which redeemable preference shares or debentures will be redeemed or paid back by the company. These are really forms of long-term indebtedness, which clearly have to be paid back to the lenders on pre-determined dates.

Remaining life:
An estimate of how long a mine will be able to extract gold (or other minerals) profitably, given the lease area and the expected grade. Clearly an assumption has to be made about the future mineral price in Rands. It can be roughly calculated by dividing the tonnage of mineable ore by the average annual rate at which it is extracted. As mining technology becomes more sophisticated and new, cheaper methods of mining are found, and the remaining life of mines can be extended.

Reserve:
A figure from the capital side of the balance sheet, which is money ploughed back into the business out of profits, arising from a revaluation of assets, or money set aside for the redemption of debentures or other long-term loans. Reserves can be either distributable or non-distributable in the form of dividends. The general rule is that a company may only distribute profits, and not its capital base. Reserves arising from profits are normally distributable, as opposed to reserves arising from e.g. a revaluation of land.

Retained income:
The entire after-tax profits of a company are seldom distributed to shareholders as a dividend. A portion is usually kept in the business to finance future growth or to act as a reserve against less profitable years. This is known as retained income and appears in both the statement of changes in equity and the balance sheet.

Return:
The return on an investment consists of any dividend, interest, rental or other income added to the increase in the value of the asset over a set period, usually expressed as an annualised percentage of the ascertained original investment. For example, if you bought shares for 1000 cents, received a dividend of 25 cents and then sold them 6 months after the date of purchase for 1175 cents, then your return consists of 25 cents dividend plus 175 of capital growth, which is 20% of your original investment of 1000 cents. This is 40% on an annualised basis.

Record date:
The day determined by the issuer on which the holding, upon which the entitlement is based, is paid out.

Return on capital employed:
A ratio used to measure pre-tax profitability. It may be calculated as pre-tax profit plus interest paid, divided by total shareholders' funds.

Rights issue:
An offer of additional shares to existing shareholders, usually at a discount to the current market price. When a company wishes to raise additional capital, one of the ways it can do so is by offering more shares to its existing shareholders. Normally the right to buy these shares is represented by "Nil Paid Letters" which entitle their holder to buy the shares at a price usually below the market price. Some of the existing shareholders may not wish to take up their rights and so are willing to sell their NPLs. For this reason the NPLs are often listed for a short period (until the date when the shares must be taken up) on the securities exchange.

Risk:
The probability that a share price will go down rather than up. All investments have an element of risk, which is harder to quantify than their return, and therefore very often left to "gut feel". Generally, the rule is that the more risky an investment, the higher its potential return. To understand this, it is necessary to consider what you are actually doing when you buy a share or other investment. Essentially you are in the business of forecasting. You are saying that you are buying the particular share because you believe that its price will go up. Now ask yourself what is the easiest price graph to predict – obviously a straight line! But if the share's price stays at the same place indefinitely, it may be easy to predict – but its volatility also makes possible much higher profits. So, in the share market, volatility, predictability and risk are really the same thing.

Rolling of a position:
The process whereby a holder replaces a soon-to-be-expiring Single Stock Future with a new Single Stock Future that has a later expiry date. The holder closes out the position in the nearer dated Single Stock Future and purchases a longer dated position on the same underlying instrument, thus keeping the same exposure without having to exercise the contract.

Satrix securities:
Exchange traded funds that track the performance of FTSE/JSE's top indices e.g. Satrix 40 tracking FTSE/JSE Top 40 index. They fall under a sector called Exchange Traded Funds.

Scrip:
The physical/paper share certificate(s).

Secondary market:
The market is made up of share transactions, which do not involve the company that issued the shares concerned. The primary market is where companies sell their shares to the public to raise capital.

Secondary share:
A share of a company which is well-managed and has good markets, but does not have the financial muscle or history of profits of the blue chips. These are sometimes referred to as "growth" stocks, because they have the potential to become blue chips at some future stage. You should expect a secondary share to double its market price within the next 2 to 3 years, and for this reason they form an important middle area in your portfolio between blue chips and speculative shares.

Sector:
A grouping of all shares in the same industry, usually represented by a sector index.

Securities:
Stocks, shares or debentures (issued by a company having a share capital), notes, units of stock issued in place of shares and options on the above or options on indices of information as issued by a securities exchange on prices of any of the aforementioned instruments. The term is much broader than "share", encompassing all types of investments, which can be readily bought or sold.

Seller's price:
The price at which someone is prepared to sell a share. At the end of the day's trade, there is often a seller who was not able to find a buyer for his shares at the price he wants, so that his price remains in the seller's column until the next trading day. The seller's price is reported in papers as it stood at the close of trade on the previous day.

Selling short (bear sales):
Selling shares you do not own at the date of sale in the expectation of being able to buy them back at a lower price.

Sentiment:
The mood of the market. The way that investors as a group perceive a share, sector or the market as a whole – are they bullish or bearish?

Settlement date:
The date on which the transaction is due to be settled. In the STRATE environment transactions become due to be settled on a prescribed number of days after the trade date. This is currently three (3) days. This is commonly expressed as T+3.

Settlement period:
One of the prescribed portions of the year for the settlement of Kruger Rands. (The weeks are numbered from 1 to 52, starting in January.)

Strate:
An electronic settlement system for the South African equities and bond market.

Shares:
These represent part-ownership of a company.

Share capital:
A figure on the balance sheet representing the amount of money raised by the company through the issue of shares to the public.

Stag:
Person who applies for shares in a new company with the intention of selling them immediately once dealings commence (hopefully at a profit).

Securities services act:
The statute regulating the establishment and operation of stock exchanges in South Africa. The Act also governs the trading of listed/ unlisted securities, market manipulation and securities depository issues.

Short position:
If the belief is that the price of an underlying share is likely to fall, then sell a Single Stock Future, thus 'going short.'

Single stock future:
A Single Stock Future (SSF) is a Derivative Instrument that gives you exposure to the price movements of an underlying financial instrument (shares). As an investor, a Futures Contract gives you the right to buy or sell the underlying listed share at a fixed price on a future date. This means that trading in SSFs enables you to speculate, hedge and exploit market opportunities.

Sub -division:
Also known as a share split, a sub-division involves an increase in the number of shares held by each shareholder, with a proportionate reduction in their value so that there is no change in the total value of the shareholding. This is done by breaking each share down into smaller pieces. The effect is to bring the share's value within the reach of smaller investors. This normally results in a greater demand for the shares.

Suspended share:
A share that the JSE has suspended from trading for a period of the time. Usually, this occurs where some material event is about to occur which will drastically affect the share price and where a company does not comply with JSE Listings Requirements. Until this information is made public, trading is suspended to prevent individuals with inside knowledge buying or selling the shares.

Synergy:
This is a fashionable word to denote gains made in addition to the sum total of the parts when two business concerns are joined. The basis of the concept in some mergers is that the net advantages that accrue to one firm need not come at the expense of the other: both parties may gain.

Systemic risk:
The risk refers to the scenario when a disruption at an institution such as the JSE or a bank or the STRATE settlement system could cause a "domino effect" throughout the financial markets toppling one financial institution after another to cause a "crisis of confidence" among investors.

Take-over:
The situation where one company makes an offer for some or all of the shares of another company. The offer to existing shareholders is usually pitched at a price well above the existing market price to persuade shareholders to accept the offer. Many investors select companies that may be ripe for a take-over and then wait. Some classic indications of a possible take-over: the company's market price is well below its net value; it has recently cut or passed its dividend; and it has a large assessed tax loss that could be used by another company.

Take-up price:
The price at which shares subject to a rights issue must be bought. Normally this price is below the market value of the shares, so that the rights themselves have a value. If the rights are not taken up then they fall away and cease to exist.

Taking a view:
This phrase has two meanings. Firstly, it can refer to an investor taking a bullish or bearish view of the market depending on whether he believes market trends will rise or fall – usually this would be reflected in his transaction. Secondly, it can refer to the length of time that one intends to keep a share – shares can be bought with a short, medium or long-term view.

Technical analysis:
The analysis of group investor behaviour, as reflected in the patterns of share prices and volumes, indices, exchange rates and other indicators. More commonly known as charting, this consists of carefully examining the share price, and drawing graphs to establish patterns which can then be used to give buy and sell signals.

Tick size:
A short horizontal stroke on a bar graph showing the price at which the share closed.

Tightly held:
Shares which are difficult to obtain because the owners are reluctant to part with them. These shares are easy to spot because they have little or no volume traded.
Generally, it is not a good idea to deal in such shares.

Time series:
A term used to describe a list of numerical data accumulated at regular periodic intervals. The daily or weekly closing price of shares is a time series.

Time decay:
A term which describes the fact that the time value of an option diminishes as the option approaches the expiry date. Time value decay follows a negative exponential curve, which is to say that it is very gradual at first, but builds up momentum until it declines very sharply in the last few days. The Greek name is Theta.

Tip sheet:
A newsletter, which concentrates on giving its readers hot tips regarding which share to buy and sell and when to transact. Such letters should be followed with caution, and their advice used only in conjunction with your own research.

Top:
The highest point on a share price or other graph over a defined period. FTSE /JSE TOP 40 INDEX X The FTSE/JSE Top 40 Companies Index (TOP 40 Index) is an equity index intended to reflect the performance of the South African ordinary share market as a whole. A relatively small proportion of the total number of securities listed on the JSE are incorporated into the index on the basis that movements in the share prices of those constituent companies can be said to represent the movement of the market as a whole. Companies selected for inclusion in the TOP 40 Index are the largest 40 companies by full market cap.

Tradeability:
The ease with which a share can be traded. Some shares are free dealing and highly tradeable, others are tightly held.

Trading assets:
Usually taken as the company's debtors and stock – in other words, the assets which are normally tied up in the direct running of the business.

Treasury bills:
Instruments for short-term borrowing employed by governments. The bills are issued by tender to the money market.

Trend line:
A line joining the high points on a bear trend and the low points on a bull trend. When the price breaks through the trend line this gives a trading signal. This is probably the simplest, but by no means the least effective technical analysis indicator.

Turnover:
The figure in the income statement turnover consists of the company's total sales or income figure.

Underlying instrument:
Single Stock Futures are derivatives that derive their value from the share that underlies the Single Stock Future - the share that has to be delivered if the contract is allowed to expire. The underlying asset is the base for the price determination of the Single Stock Future.

Underwriting:
An agreement to buy all the units of a new issue not sold by a specific day. Banks typically underwrite new share issues, thus assuring the issuing company that all shares will be taken up.

Unit trust:
A trust consisting of a management company like STANLIB and a trustee company (usually a bank) that invests unit holders' funds in the share and capital markets for a fee. The public is invited to buy units in order to obtain capital growth and dividend income. Unit trusts are basically a method for laypeople to pass on the management of their money to a management company employing expert analysts. Investors can invest much smaller sums of money in a unit trust than is usually practical when buying shares directly through a broker. Different unit trusts have different biases in their portfolios, which can greatly affect their overall performance.

Unlisted investment:
A balance sheet item, normally shown by way of a note, and indicating share investments held by the company in unlisted companies which may be private or public.

Upside potential:
A term used to describe a transaction made at a price higher than the preceding transaction price. Also called a plus tick.

Variation margin:
Unlike the cash market where your profit or loss is only realised once you sell the instrument, JSE Equity Derivatives pay the profit or loss on a daily basis. This payment is known as variation margin and is equal to the difference in the value of the Derivative from day to day.

Volatility:
The degree to which a share deviates from its average. High volatility is associated with risk, both fundamental and technical. For example, shares in marginal gold mines can be extremely volatile because their operations are only just profitable or unprofitable so that their performance is highly geared to the gold price.

Volume:
The number of shares changing hands during the trading day. This figure is calculated by counting the number of shares subject to each and every trade daily, which gives the daily traded volume you can see in the daily newspapers. You should keep a careful lookout for exceptional volumes on a share, because they can give a clue to possible special situations.

Warrants:
Are securities traded on the JSE;

- Derivatives that are options;
- Include the right but not obligation to buy (call), sell (put) or participate in the performance of an underlying instrument;
- Are either 'American', which can be exercised at any time up to the expiry date or 'European', which can be only on a specific date – typically the expiry date.
- Have a limited time for which they are listed on the JSE, they all have an expiry date;
- Are issued on ordinary shares, baskets of shares, indices, currencies, commodities and bonds;
- Serve a particular purpose in trading, but have high risk associated with the trading decision.

Widow's and orphan's fund:
An institutional term referring to a fund which is dominated by the need to generate income rather than rapid capital growth.

Working capital:
The money which is tied up in the workings of the company. Usually calculated by adding the company's debtors, stock and cash balances, and subtracting its creditors and other current liabilities. Most companies try to keep their working capital to a minimum because it ties up money which could be used for other activities and which incurs interest.

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