



glossary of terms

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P/E ratio – a ratio of a stock (also called its "earnings multiple", or simply "multiple", "P/E", or "PE") used to measure how cheap or expensive share prices are. It is probably the single most consistent red flag to excessive optimism and over-investment. It also serves, regularly, as a marker of business problems and opportunities. By relating price and earnings per share for a company, one can analyze the market's valuation of a company's shares relative to the wealth the company is actually creating. A P/E ratio is calculated as Price per share/Earnings per share

Earnings Per Share (EPS) – the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability

Revenues – the total financial amount earned by the company through revenues and sales of its goods and/or services

Net Income (Earnings) - the amount of money the business has earned after paying income taxes

Growth Stock – a stock with earnings' growth at a rapid pace that is expected to continue to grow at high levels in the future

Income Stock – a stock with a history of paying consistently high dividends on a regular basis

Blue Chip – stock of a well-established and financially sound company that has demonstrated its ability to pay dividends during economic booms and recessions, making it less risky than many other stocks; its performance usually follows that of the S&P 500 since many blue chips are part of that index

Value Stock – a stock in which the intrinsic value of the stock is greater than the stock's market value (current price), as determined by a valuation model assessing what the intrinsic price would be and how much the company would be worth

Porter's 5 Forces – a framework for industry analysis and business strategy development developed in 1979 by Michael Porter of Harvard Business School. He devised 5 forces that determine the competitive intensity and therefore attractiveness of a market within that industry (microenvironment) and in relation to the overall market (macroenvironment). These forces relate to a company's ability to serve its customers and make a profit

Basic Corporate Structure

Management Team- The combination of the Board of Directors and the Corporate Executives who oversee the company and its business decisions.

Board of Directors- Group of people elected to serve as intermediaries between management and investors of a public company. They are active in all important decisions of the company including choosing which management to hire, compensation of executive members, and whether to buy back stock or issue a dividend to investors. It is important that the board is neutral, otherwise the actions of the company could



be geared to benefiting interests of the management rather than striking a balance between those of investors.

Internal Director- Any member of a company's board of directors who is either an employee, in management, or a major stakeholder in the company.

External Director- Any member of a company's board of directors who is not an employee or investor in the company, which reduces the chance of a conflict of interest between management and investors.

Chief Executive Officer (CEO)- The senior manager who monitors the activities of a company and usually serves on the board of directors or as president of the company.

Chief Financial Officer (CFO)- The senior manager who is equivalent to a treasurer and monitors all the financial dealings and strategy of a company.

Chief Operating Officer (COO)- The senior manager who oversees daily operational activities and reports them to the CEO.

Relationship between Management and Investors

Corporate Governance – The interaction between all major players of a corporation including stockholders, management, and the board of directors and how they govern the company based on established laws and norms. Good companies have ethical corporate governance and transparency in business actions.

Investor Relations- How the corporate management and board of directors deal with investors in their company including the disclosure of financial statements and general strategy for future areas of growth.

Shareholders – all the people who own stock in a company.

Fiduciary Duty- the ethical obligation that corporate management has to look out for investors' best interests and act in good faith.

Company's Annual Report- the report companies issue every year with a letter from the management, financial statement information, a recap of the past year's activities, and the strategic goals of the company with a general plan for how to achieve them.

Company's Earnings Call- A call that occurs 4 times a year after every business quarter where investors can dial in to listen to management discuss the state of the company and its earnings. Analysts are allowed to answer questions, which provide helpful information to private investors since it shows the factors that professionals deem to be important in predicting the future of the company and stock.

Analysts Day- Day where professional stock analysts are invited to the company to listen to presentations by the management and board of directors in order to learn more about the stock in order to aid them in making their recommendations on the company.

Shareholder Meeting – Yearly meeting where investors are invited to the company to ask questions to the management and board of directors to learn about the company's strategy and financial situation.



Publicly Traded Company- A company that issues shares of stock to public investors as governed by the Securities and Exchange Commission (SEC).

Actions of Corporate Management

Stock Buybacks- Company's decision to purchase stock from its shareholders or from the open market in order to reduce the number of shares on the market, which leads to a rise in stock price.

Stock split- When a company splits its shares into multiple shares, in order to decrease the price of buying shares. The total value of the stock doesn't change, but the individual share prices are lowered. For instance, if a company's shares were worth \$500 each, it would take \$50,000 to buy 100 shares; But if the stock was split so that each share was worth \$50, it would only cost \$1000 to buy 100 shares.

Dividends- Issuance of company's earnings to its stockholders as decided by the board of directors. Stable and well established companies whose stock price doesn't move much year to year usually issue dividends as a benefit to stock holders, but newer or faster growing companies simply reinvest these earnings into the company to finance more growth rather than issuing a dividend.

Insider Buying- Usually an indication of the health and strength of the company's stock since "insiders" or employees and management are investing in the company.

Employee Buyout- A method of restructuring a company since the employees purchase a majority "stake" or share of the company's stock.

Mergers- When two companies join in a mutual agreement and the stock of one company is sold to the stockholders of the company that is initiating the acquisition.

Acquisitions- When a company purchases a major share in another company.

Spinoffs/divesture- When a company sells a company that they acquired and allows it to become an independent company again.

Initial Public Offering (IPO)- The stock that is first sold after a private company decides to go public.

Secondary Offering- When a company sells additional shares of stock after the initial public offering (IPO) in order to raise capital (money) for the company.

Breaches of Management's Fiduciary Duty to Shareholders

Insider Information- Non-public information about a company's stock that someone possesses. It becomes illegal when someone uses this information to either sale or purchase the stock. See insider trading.

Insider Trading- The purchase or sale of a stock when someone has information about the company that is not available to the public at large.

"Cooking the Books"- The illegal activities of corporate management to alter the financial statements of a company in order to deceive investors about its financial health.