Glossary

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- **Appreciation**

  An increase in the price or value of an **asset**.

- **Asset**

  An asset is anything of value (tangible or intangible) that is owned by an individual or entity, and is anticipated to generate future cash flows.

- **Asset Class**

  An asset class is a grouping of investments that share similar characteristics and are governed by the same laws and regulations. Equities (e.g., common stock), fixed income, cash and cash equivalents, real estate, commodities, and currencies are common examples of asset classes.

- **Asset allocation**

  Asset allocation is a strategy used to create a portfolio that balances the potential risks and returns by investing your money in various types of assets, such as stocks and bonds.

- **Authorized Shares**

  Authorized shares refer to the maximum number of shares that a corporation is allowed to issue based on its articles of incorporation. This limit is established at the time of incorporation.

- **Ask Price**

  An ask price is the price at which a seller is willing to sell a financial instrument.

- **Beta**

  Beta measures how sensitive or volatile a **security** is compared to the market as a whole. It’s a measure of an asset’s risk in relation to the market.

- **Bearish**

Being bearish in trading indicates the belief that a market, asset, or financial instrument is likely to undergo a decline or downward trend.

- **Broker**

  A broker is an independent person or a company that organizes and executes financial transactions on behalf of another party. They can do this across a number of different **asset classes**, including stocks, real estate, and insurance. A broker will normally charge a commission for the order to be executed.

- **Bullish**

  Being bullish in trading indicates the belief that a market, asset, or financial instrument will experience an upward price movement.

- **Bond**

  A bond is a type of investment where an investor lends money to a **borrower (debtor)**, which can be a company or the government. In exchange for the loan, the investor receives regular interest payments. Bonds have maturity dates at which point the principal amount must be paid back in full or risk **default**.

- **Brokerage firm**

  A brokerage firm serves as an intermediary connecting people who want to buy and sell **securities** and other **financial instruments**.

- **Bonus Share**

  Bonus shares are extra shares distributed to existing **shareholders** at no additional cost. The number of bonus shares received is determined by the shareholder's existing holdings. These shares are issued as a way for the company to utilize its accumulated earnings instead of distributing them as dividends, thereby converting them into additional free shares for the shareholders.

- **Bid Price**

  The price a buyer is willing to pay for shares of a stock or other asset.

- **Bid Yield / Offer Yield:**

Rate at which a willing buyer / seller is offering to buy / sell government securities during the course of the day. Rate is influenced by the prevailing market liquidity, overall macroeconomic situation in the country, and the days to maturity.

- **Capital Gain**

  A capital gain is when you sell an **asset** at a price higher than the amount you initially paid for it.

- **Closing price**

  A closing price is the last level at which an asset was traded before the market closed on any given day.

- **Certificate of Deposit**

  A certificate of deposit (CD) is a type of savings account where you deposit a specific amount of money for a set period of time. In return, the bank pays you interest. Once the agreed-upon period ends, you receive your original deposit amount along with any earned interest.

- **Credit rating**

  A credit rating is a numerical assessment that informs lenders about the likelihood of a **borrower** repaying a loan. It is determined by examining the borrower's financial history.

- **Closed-End Fund**

  An investment fund that issues a specific number of shares; its **capitalization** is fixed. The shares are not redeemable, but are readily transferable and trade on either a stock exchange or the **over-the-counter market**.

- **Credit Risk**

  Potential that an investment will go down when assigned a negative **rating** (downgraded) by a reputable credit rating service.

- **Cut off yield:**

  Rate at which bids are accepted and set as the coupon rate for the security. Bids at yields higher than the cut-off yield are rejected and those lower than the cut-off yield are accepted.

- **Day trading**

  Day trading is a strategy of short-term investment that involves buying and selling **financial instruments**, such as stocks, currencies, or commodities, within the same trading day. Day traders aim to take advantage of short-term price movements and capitalize on intraday volatility. They typically close out all their positions by the end of the trading day and do not hold any positions overnight.

- **Default Risk**

  Default risk refers to the potential for a debt issuer/borrower to be unable to fulfill its financial obligations, such as making regular **interest** payments or repaying the debt in full at maturity.

- **Debt**

  Debt refers to the amount of money borrowed by an individual or entity from another party. It is commonly utilized by both individuals and corporations to afford significant purchases that would otherwise be unaffordable.Typical forms of debt include loans like mortgages, auto loans, personal loans, and credit card debt.

- **Debt to Equity**

  A financial ratio that measures the proportion of shareholder **equity** compared to **debt** used to fund a company's assets.

- **Debtor**

  A debtor (aka borrower) is a person or an entity that owes money to others.

- **Deflation**

  Deflation is a decrease in the overall level of prices for goods and services. Typically, it occurs when the inflation rate drops below 0%.

- **Depreciation**

  When an asset loses value over a period of time.

- **Dilution**

  Dilution occurs when a company issues additional shares after its **initial public offering (IPO)**, leading to a decrease in the value of existing shares.

- **Diversification**

  Diversification is a risk management approach that involves dividing your **investments** among various **asset classes** or **securities**. This aims to decrease the overall risk by spreading investments across multiple areas.

- **Diversified Portfolio**

  A diversified portfolio is a collection of different **securities** and **asset classes** that are not affected by the same factors, thereby minimizing the overall risk of the **portfolio**.

- **Dividend yield**

  Dividend yield is a financial metric calculated by dividing the annual **dividends** paid per share by the price per share.

- **Dividends**

  Dividends are a portion of a firm's net profits that is distributed to the **shareholders** rather than being reinvested in the company.

- **Equity**

  Equity represents the value that would be returned to a company’s shareholders if all of the assets were liquidated and all of the company's debts paid off.

  Earnings report

  Earnings reports are financial statements released by publicly traded companies on a quarterly basis. These reports consist of three primary financial statements: the balance sheet, the income statement, and the cash flow statement. When examined together, these statements offer a comprehensive overview of the company's sales, expenses, net income, and earnings per share (EPS).

  EPS (Earnings per share)

  Earning per share is a metric of a company's profitability. It is calculated by dividing a company's **net income** by its total number of shares.

  ETF

An exchange-traded fund (ETF) is a type of pooled investment security that operates much like a **mutual fund**. Typically, ETFs will track a particular **index**, sector, commodity, or other assets, but unlike mutual funds, ETFs can be purchased or sold on a **stock exchange** the same way that a regular stock can.

Face Value / Par Value:

A bond's face value refers to how much a bond will be worth on its maturity date. This is the value that the bondholder will receive when their investment fully matures.

Free Float

Free float refers to the portion of a company's shares that are available for trading on the open market. It represents the number of shares held by public investors, excluding shares held by company insiders, controlling shareholders, or strategic investors.

Financial Instrument

A financial instrument refers to any tradable **asset** or contract that represents a legally binding agreement between two parties regarding the exchange of financial value. It can take various forms including **stocks**, **bonds**, **mutual funds**, **ETFs** etc.

Fixed Income

Fixed income represents a category of assets and securities that provide investors with a predetermined and consistent stream of income, often in the form of fixed **interest**. The primary examples of fixed-income securities include government and corporate bonds.

Fractional shares

A fractional share represents a fraction or portion of a complete share of a stock. Typically, it is not possible to directly purchase fractional shares, but they can be obtained through **stock splits** or dividend reinvestment plans. **Brokers** have the ability to aggregate fractional shares, combining them to form whole shares that can be bought or sold.

Fundamental analysis

Fundamental analysis is an approach to assess the true value of an asset by examining various factors that can impact its future price. This involves studying external events, financial statements, industry trends, and other relevant factors to determine the **intrinsic value** of the asset.

Forex

Forex is a way by which market participants convert one currency to another. It’s also referred to as foreign exchange, FX, or currencies.

Futures Contracts

Futures contracts are contractual arrangements between two parties to exchange an asset at a predetermined price on a specified future date. They are commonly known as 'futures’.

- **Gainers**

In trading, gainers refer to financial instruments, such as stocks or other securities, that have experienced an increase in price over a specific period of time.

Hedge Fund

Hedge Funds are actively managed investments that employ diverse strategies to invest clients' funds with the goal of outperforming the market or serving as a safeguard against unforeseen market fluctuations.

Interest Rate Risk

Interest rate risk is the risk associated with the potential impact of market interest rate changes. It pertains to the likelihood that the earnings derived from an initial investment may diminish in value compared to prevailing market rates because of fluctuations in interest rates.

Index

In the case of financial markets, stock and bond market indexes consist of a hypothetical **portfolio** of securities representing a particular market or a segment of it.

Index Fund

Index funds are investment funds that follow the performance of a specific stock market index, like the S&P 500. When you invest in an index fund, your money is used to invest in every company in that index. This results in a more diverse portfolio than if you were hand-selecting individual stocks, for example.

- **Inflation**

  Inflation is a general increase in prices that causes a decline in a currency's **purchasing power**.

- **Interest**

  Interest is the cost of borrowing money. The borrower pays interest, and the lender receives it. For instance, when you borrow money from a bank, you are required to repay the initial amount along with the agreed-upon interest.

- **Investment**

  An investment is an **asset** that you buy with the expectation that it will generate some future income or profit.

- **Indices trading**

  Indices trading is the means by which traders attempt to make a profit from the price movements of indices.

- **Inflation risk**

  Inflation risk, or purchasing power risk, is the risk that **inflation** will undermine the real value of cash flows made from an investment

- **Intrinsic value**

  Intrinsic value refers to the perceived or actual worth of an asset, which may differ from its current **market price**. It serves as a fundamental concept in evaluating investments, as it helps determine whether an asset is overvalued or undervalued.

- **IPO (Initial Public Offering)**

  When a company decides to raise money through selling shares for the first time to the public.

- **KMI-30 Index**

  Consisting of 30 companies that have been screened for Islamic Shariah criteria, the KMI 30 Index is a stock market index on the Pakistan Stock

Exchange.

- **KMI-All Share Index**

  PSX-KMI All Share Index comprises all Shariah compliant companies listed on the Pakistan Stock Exchange Limited. The Index was developed by Pakistan Stock Exchange Limited and Meezan Bank Limited.

- **KSE-30 Index**

  KSE 30 Index includes the top 30 most liquid companies listed on PSX based on Free Float methodology.

- **KSE-100 Index**

  The KSE-100 Index was introduced in November 1991 with a base value of 1,000 points. The Index comprises of 100 companies selected on the basis of sector representation and highest **Free-Float** Capitalization, which captures around 80% of the total Free-Float Capitalization of the companies listed on the Exchange.

- **Liquidity**

  Liquidity refers to how easily an asset can be converted into cash. Assets that can be readily and quickly converted into cash are considered highly liquid, such as gold.

- **Limit order**

  A limit order is an instruction given by an investor to a **broker** to buy or sell a security (such as a stock) at a specific price or better.

- **Long position**

  In trading, when someone takes a long position or goes long on an asset, it means they are expecting the asset's price to rise. By taking a long position, traders aim to profit from the increase in the asset's value.

- **Liquidity Risk**

  Liquidity risk refers to the risk associated with the ability to sell a security or convert an asset into cash easily and at a fair market price.

- **Losers**

In trading, losers refer to financial instruments, such as stocks or other securities, that have experienced a decrease in price over a specific period of time. Losers are investments that have lost value, resulting in a negative return for those who hold or have purchased them.

- **Market order**

  A market order is an instruction from a trader to a **broker** to execute a trade immediately at the best available price.

- **Market value**

  The market value reflects what a business is worth according to market participants.

- **Market capitalization**

  It's the total value of a company's **outstanding shares**, calculated by multiplying the total number of shares by the current share price.

- **Market Volatility**

  It is the rate at which prices move over a given period of time. A market's volatility is its likelihood of making major, unforeseen short-term price movements at any given time.

- **Mutual fund**

  A mutual fund is a financial vehicle that pools assets from shareholders to invest in **securities** like **stocks, bonds,** and other assets. They are operated by professionals, who allocate the fund's assets and attempt to make profits for the fund's investors.

- **Market Treasury Bills**

  Treasury bills are **zero coupon** instruments issued by the Government of Pakistan and sold through the State Bank of Pakistan via fortnightly auctions (on Wednesday) through **non-competitive bidding**. The auction and settlement dates, target amount, and maturity amount are issued through pre-announced auction calendars.

- **Market Status**

Market status refers to the present condition of the market, indicating whether trading is active or not. This information serves as a signal to traders, providing insights into whether trading is live ("On"), halted ("Off"), or temporarily suspended ("Suspended"), among other possible indicators.

- **Net income**

  Net income is the total revenue minus total expenses of a company.

- **Net Asset Value**

  Net Asset Value is the net value of an investment fund's assets less its liabilities, divided by the number of **shares outstanding**.

- **Non-Competitive Bid:**

  A non-competitive tender is an offer to buy securities made by non-institutional investors. Non-competitive tenders do not specify the price or terms of the security but instead accept the market price set by other participants.

- **Option**

  An option is a **financial instrument** that offers you the right – but not the obligation – to buy or sell an asset when its price moves beyond a certain price within a set time period.

- **OTC Market**

  Over-the-counter (OTC) is the process of trading securities via a broker-dealer network as opposed to on a centralized **exchange** like the New York Stock Exchange. Over-the-counter (OTC) securities are traded without being listed on an exchange.

- **Open-End Fund**

  An open-end fund is a diversified portfolio of pooled investor money that can issue an unlimited number of shares. The fund sponsor sells shares directly to investors and redeems them as well. These shares are priced daily based on their current net asset value (NAV).

- **Portfolio**

A portfolio is a person’s or an institution’s entire collection of **investments** or financial assets, including **stocks**, **bonds**, real estate, **mutual funds**, and other securities.

- **Primary Market**

  The primary market is where securities are created - companies sell new stocks and bonds to the public for the first time.

- **Purchasing power**

  Purchasing power is the amount of goods and services that can be purchased with a unit of currency.

- **Passive management**

  Passive management is an investment strategy that aims to mimic the performance of a specific group of assets, like stocks or bonds, rather than trying to outperform them. It typically involves using funds or **exchange-traded funds (ETFs)** that track a particular market **index** or basket of securities. The goal is to capture the overall market **returns** and avoid attempting to pick winning individual investments.

- **Political Risk**

  Political risk refers to the possibility that changes in government or government policies can affect the value of an investment.

- **Pakistan Investment Bonds (PIBs)**

  PIBs are long-term bonds issued by the Government of Pakistan and sold through SBP via periodic auctions

- **Rules SECP/Commission**

  Means the NBFC Rules 2003, which governs the operation of the mutual funds. The Securities and Exchange Commission of Pakistan (SECP), established under section 3 of the Securities and Exchange commission of Pakistan Act, 1997.

- **Return**

  Return is the money made or lost on an **investment** over a period of time.

- **Risk preference**

Risk preference refers to an investor's willingness to accept varying levels of risk in their investments. Generally, higher levels of risk are associated with the potential for higher **returns**.

- **Risk tolerance**

  An investor’s risk tolerance is the level of risk they’re willing to take when making an investment decision.

- **ROI**

  Return on investment is a financial ratio that divides the net profit (or loss) from an investment by its cost.

- **REIT**

  A REIT, or real estate investment trust, is a company or a group of companies that allows people to invest in a collection of properties that generate rental income. It provides a way for individuals to pool their money together and become co-owners of real estate, such as apartment buildings, shopping malls, or office spaces. By investing in a REIT, people can potentially earn a share of the rental income and property value **appreciation** without needing to directly buy and manage properties themselves.

- **Return on equity (ROE)**

  Return on equity (ROE) is a measure of a company’s profitability against its equity, expressed as a percentage. In other words, it is how much income the company is generating relative to the amount of capital received from shareholder investments.

- **S&P 500 Index**

  The S&P 500 Index, or Standard & Poor's 500 Index, is a **market-capitalization**weighted index of 500 leading publicly traded companies in the U.S.

- **Shareholders**

  A shareholder is any person, company, or institution that owns shares in a company’s stock. Shareholders enjoy certain rights such as voting at shareholder meetings to approve the members of the board of directors, dividend distributions, or mergers.

- **Secondary Market**

  The secondary market is where investors purchase securities from other investors, rather than from issuing companies themselves.

- **Securities**

  Securities are tradable financial instruments with monetary value.

- **Shares outstanding**

  Shares outstanding is the number of total shares of a corporation that are **authorized**, issued, and purchased on the secondary market by investors

- **Stock**

  A stock is a **security** that represents partial ownership in a company. When you buy stocks, you acquire shares, which represent a small portion of ownership in the company.

- **Stock exchange**

  A stock exchange is a regulated marketplace where buyers and sellers trade stocks and other financial securities. It serves as a platform for companies to raise capital by issuing and selling stocks to the public, and for investors to buy and sell these securities. Examples of well-known stock exchanges include the New York Stock Exchange (NYSE), NASDAQ, Pakistan Stock Exchange (PSX).

- **Stock Market**

  The stock market is where investors connect to buy and sell investments — most commonly, stocks.

- **Stock valuation**

  Stock valuation is the process of determining the **intrinsic value** or worth of a company's stock. It involves evaluating various factors and financial indicators to estimate the fair value of a stock. By comparing the calculated valuation with the current **market price**, investors can assess whether a stock is overvalued or undervalued.

- **Stop loss**

It is a strategy developed to limit losses and control risk by deciding to sell or buy an asset when it reaches a certain price.

- **Stock Split**

  A stock split occurs when a corporation increases the number of its **outstanding shares** by distributing more shares to current stockholders. By splitting existing shares into multiple new shares, the stock becomes more affordable.

- **Sukuk**

  A sukuk is a sharia-compliant bond-like instrument used in Islamic finance. Sukuk are securities that prohibit the charging or paying of interest.

- **Share price**

  A share price – or a stock price – is the amount it would cost to buy one share in a company. The price of a share is not fixed, but fluctuates according to market conditions.

- **Shares**

  Shares are the units of the ownership of a company, usually traded on the stock market. They are also known as stocks, or **equities**.

- **Shariah-compliant investing**

  Shariah-compliant investments must meet all the requirements of Shariah law, as well as other principles set down to govern Islamic finance.

- **Short**

  In trading, going short refers to a strategy where a trader anticipates a decline in the price of an asset. By taking a short position, the trader aims to profit from a decrease in the asset's value.

- **Short-selling**

  Short selling is the act of selling an asset that you do not currently own, in the hope that it will decrease in value and you can close the trade for a profit.

- **Technical analysis**

  Technical analysis is a method used to analyze and predict price movements in financial markets by studying historical price charts and market data. By identifying patterns from the past, traders aim to make informed predictions about future price trends.

- **Treasury stock**

  Treasury stock refers to the shares of a company that it holds in its own possession. These shares are not available for public trading and are excluded from the total number of outstanding shares.

- **Time horizon**

  Time horizon is the investing timeframe for achieving a financial goal.

- **Time value of money**

  Time value of money refers to the idea that money available today is worth more than the same amount of money in the future

- **Volume**

  Volume represents the quantity of a specific asset that is traded within a given timeframe. It is commonly displayed alongside price data.

- **Yield**

  Yield is the income earned from an **investment**, most often in the form of **interest** or **dividend** payments.

- **Zero Coupon Bond:**

  A zero-coupon bond is a debt security instrument that does not pay interest. Zero-coupon bonds trade at deep discounts, offering full face value (par value) at maturity. The difference between the purchase price of a zero-coupon bond and the **par value** indicates the investor's return.

From Other Websites - Fixed Income Glossary

From https://corporatefinanceinstitute.com/resources/fixed-income/fixed-income-glossary/

Annuity

An annuity is a series of payments in equal time periods, guaranteed for a fixed number of years.

Coupon Rate

Coupon Rate is the amount of interest received by a bond investor, expressed on a nominal annual basis.

Credit Spread

The spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

Current Yield

The coupon from a bond divided by the market price of the bond, expressed as a percentage.

Discount Factor

A decimal number or percentage multiplied by a future cash flow value to discount it back to the present value

Duration

A measure of the sensitivity of the price of a fixed-income investment to a change in interest rates.

Economic Cycle

The natural fluctuation of the economy between periods of expansion (growth) and contraction (recession).

Expected Value

The sum of every potential value of a variable multiplied with their chance or probability of occurring.

Liquidity Preference Theory

The theory where investors demand a premium or higher rate of return for securities with longer maturity times. This is due to the additional risk they take on when making long-horizon investments.

Market Segmentation Theory

The theory that investors have different investment goals, and, therefore, there is no necessary relationship between long and short-term interest rates.

Moving Average

The average of time-series data from multiple consecutive periods. It is considered a “moving” average because the average is constantly recalculated once new data becomes available for the next period.

Nominal Value

The value of a security, such as a stock or bond, which remains fixed for the duration of its life.

Pension Funds

A fund set up by an employer for the investment of an employee’s retirement savings. These savings are contributed by both the employer and employees.

Pure Expectations Theory

The idea that long-term interest rates predict what short-term rates will do in the future. So when the market expects short-term rates to fall, we expect to see lower long-term rates.

Standard Deviation

A measure of how far a set of data is from the average. The further it is, the higher its standard deviation is. Standard deviation is computed by taking the square root of variance.

Sum of Squares

The Sum of Squares Regression (SSR) measures how much variation there is in the modeled values and this is compared to the Total Sum of Squares (SST), which measures how much variation there is in the observed data, and to the Sum of Squares Residual (SSE), which measures the variation in the modeling errors.

Variance

A measure of how far a set of data is from their average value. The expectation of average squared deviations from the mean of a set of data.

Yield Curve

A graph plotting interest rates of bonds with equal credit risk, at the same point in time, but with different maturity rates.

Yield to Maturity

The annual return earned by a bond investor if purchasing a bond today and holding it until maturity.

From https://jamapunji.pk/knowledge-center/types-bonds

Fixed rate: Fixed rate is an interest rate that remains fixed either for the entire term of the bond or part of the term. This category includes bonds with fixed coupons.

Floating rate: Floating rate is an interest rate that is allowed to rise up and down in sync with the market or together with an index. Also regarded as variable interest rate.

From https://www.ablfunds.com/learning-zone/glossary/

Bond Rating: A rating or grade that is intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Agencies such as Standard & Poor's, Moody's Investors Service, and Fitch issue ratings for different bonds, ranging from AAA (highly unlikely to default) to D (in default).

Coupon

The interest rate that a bond pays (indicated as a percentage of its face value). For example, if the face value of a bond is Rs 100 and it pays interest at 8%, this interest rate is called the coupon.

Junk Bond

A bond which is rated below the investment grade and denotes high risk to the investor.

From https://www.abl.com/business-banking/treasury-group/sales-desk/fixed-income-sales/

Treasury bills

These are issued by Government of Pakistan (GoP) and are sold in the primary market through auctions conducted by State bank of Pakistan (SBP). These are sovereign instruments and are backed by full faith and credit of the GoP and hence are referred to as risk-free securities (without any default or credit risk but price risk is there). These are zero coupon instruments priced at discount with a yield equal to the difference between the purchase price and the maturity value (or face value).

PIBs

PIBs are long-term, semi-annual coupon-based instruments issued by Government of Pakistan (GoP) and are sold in the primary market through auctions conducted by State bank of Pakistan (SBP). These are sovereign instruments and are backed by full faith and credit of the GoP and hence are referred to as risk-free securities (without any default or credit risk but price risk is there). PIBs can trade at premium or discount depending on whether the market yield/rate on these instruments are lower or higher than the coupon rate.