MODULE 10: Vocab & Key Terms

ETFs & Mutual Funds

Exchange Traded Funds (ETFs)

These are professional funds that can be bought and sold on a stock exchange, similar to stocks. ETFs track an index, such as the S&P 500 or the Nasdaq 100, and their performance is based on the performance of those indexes. ETFs are ideal for investors who want diversification within their portfolio at a low cost.

Mutual Funds

These types of funds pool money from many investors and invest it in a variety of different securities, such as stocks, bonds, options and commodities. Mutual funds spread out risk across numerous investments, providing investors with greater diversification than they could achieve by investing in only one security.

Risk/Return Ratio

The risk-return ratio is used to measure an investment's potential return relative to its associated risk level. Generally speaking, higher risk investments have the potential for higher returns but also carry more inherent risks than lower risk investments do; therefore it is important for investors to consider both elements when evaluating any given investment opportunity prior to making any decisions about which ones may be appropriate for them.

Expense Ratio

This is an annual fee associated with managing a mutual fund or ETF; it covers administrative costs as well as other expenses related to managing the fund itself (such as research costs). Before investing in any fund it is important for investors to evaluate its expense ratio since this will affect how much total return they can expect from their investment over time.

Index Funds

These funds attempt to track a specific stock market index by purchasing all or most of the stocks represented in that index. For example, a fund that tracks the S&P 500 will purchase all or most of the 500 stocks represented in that index in order to match its performance as closely as possible.

Active Investment Management

An approach where investment professionals make active decisions about the types and amounts of investments in order to outperform the market or beat certain benchmarks.

Leverage

Leverage is a way for investors to increase their return on investment by borrowing money from a lender or broker. This borrowed money is used to purchase securities with the hope that if the value of those securities increase, they can repay the loan with profits earned.

Capital Markets

Capital markets are where both short-term debt instruments (such as Treasury bills) and long-term debt instruments (such as corporate bonds) are traded in order to raise capital for businesses and governments.

Mergers & Acquisitions (M&A)
M&A deals involve two companies agreeing to combine forces in some capacity for mutual benefit - either through joint ventures, mergers or acquisitions - in order to strengthen their competitive positions or enter new markets quickly with minimal risk or cost.

Underwriting
Underwriting is a process undertaken by investment banks when raising capital for a company via equity or debt sales which entails assessing the potential risks associated with investing in that company's securities, setting the offering price accordingly, managing investor demand and distributing the securities into the market through a book building process at the determined offering price.

IPO
Initial public offering; the process where a private company goes public, meaning shares are sold to investors, after which it can be publicly traded on the stock market.

Offering Price
The price of a stock of a company in its IPO.

Merger
When two companies unite to form one, usually ending up under the name of one of them. These two companies are usually equal in size.

Acquisition
When one company buys another company, usually by buying all of the assets of the target company.

Overvalued
A stock that has a higher price than its true value.

Undervalued
A stock that has a lower price than its true value.