CHAPTER 8

Commonly Used Jargons

The objective of this chapter is to help you learn some of the common market terminologies, and concepts associated with it.

Bull Market (Bullish) – If you believe that the stock prices are likely to go up then you are said to be bullish on the stock price. From a broader perspective, if the stock market index is going up during a particular time period, then it is referred to as the bull market.

Bear Market (Bearish) – If you believe that the stock prices are likely to go down then you are said to be bearish on the stock price. From a broader perspective, if the stock market index is going down during a particular time period, then it is referred to as the bear market.

Trend - A term 'trend' usually refers to the general market direction, and its associated strength. For example, if the market is declining fast, the trend is said to be bearish. If the market is trading flat with no movement then the trend is said to be sideways.

Face value of a stock – Face value (FV) or par value of a stock indicates the fixed denomination of a share. The face value is important with regard to corporate action. Usually when dividends and stock split are announced they are issued keeping the face value in perspective. For example the FV of Infosys is 5, and if they announce an annual dividend of Rs.63 that means the dividend yield is 1260%s (63 divided by 5).

52 week high/low – 52 week high is the highest point at which a stock has traded during the last 52 weeks (which also marks a year) and likewise 52 week low marks the lowest point at which the stock has traded during the last 52 weeks. The 52 week high and low gives a sense of the range within which the stock has traded during the year. Many people believe that if a stock reaches 52 week high, then it indicates a bullish trend for the foreseeable future. Similarly if a stock has hits 52 week low, some traders believe that it indicates a bearish trend for a foreseeable future.

All time high/low – This is similar to the 52 week high and low, with the only difference being the all time high price is the highest price the stock has ever traded from the time it has been listed. Similarly, the all time low price is the lowest price at which the stock has ever traded from the time it has been listed.

Long Position – Long position or going long is simply a reference to the direction of your trade. For example if you have bought or intend to buy Biocon shares then you are said to be long on Biocon or planning to go long on Biocon respectively. If you have bought the Nifty Index with an expectation that the index will trade higher then essentially you have a long position on Nifty. If you are long on a stock or an index, you are said to be bullish.

Short Position – Going short or simply 'shorting' is a term used to describe a transaction carried out in a particular order. This is a slightly tricky concept. To help you understand the concept shorting, I'd like to narrate a recent incident that happened to me at work.

If you are a gadget enthusiast like me, you would probably know that Xiaomi (Chinese manufactures of Smartphone) recently entered into an exclusive partnership with Flipkart to sell their flagship smart phone model called Mi3 in India. The price of Mi3 was speculated to be around Rs.14,000/-. If one wished to buy Mi3, he had to be a registered Flipkart user, the phone was not available for a non registered user, and the registration was open only for a short time. I had promptly registered to buy the phone, but my colleague Rajesh had not. Though he wanted to buy the phone, he could not because he had not registered on time.

Out of sheer desperation, Rajesh walked up to me, and made an offer. He said, he is willing to buy the phone from me at Rs. 16,500/-. Being a trader at heart, I readily agreed to sell him the phone! In fact I even demanded him to pay me the money right away.

After I pocketed the money, I thought to myself, what have I done?? Look at the situation I've put myself into? I've sold a phone to Rajesh, which I don't own yet!!

But then, it was not a bad deal after all. I agree, I had sold a phone that I dint own. However I could always buy the phone on Flipkart, and pass on the new unopened box to Rajesh. My only fear in this transaction was, what if the price of the phone is above Rs.16,500?? In that case I'd make a loss, and I'd regret entering into this transaction with Rajesh. For example if the phone was priced at Rs.18,000 my loss would be Rs.1,500 (18,000 – 16,500).

However to my luck, the phone was priced at Rs.14,000/-, I promptly bought it on Flipkart, upon delivery, I handed over the phone to Rajesh, and in the whole process I made a clean profit of Rs.2,500/- (16500 – 14000)!

If you look at the sequence of transactions, first I sold the phone (that I dint own) to Rajesh, and then I bought it later on Flipkart, and delivered the same to Rajesh. Simply put I had sold first, and bought it later!

This type of transaction is called a 'Short Trade'.

The concept of shorting is very counter intuitive simply because we are not used to 'shorting' in our day to day activity, unless you have a trader mentality :)

Going back to stock markets, think about this very simple transaction – on day 1 you buy shares of Wipro at Rs.405, two days later (day 3) the stock moves and you sell your shares at Rs.425. You made a profit of Rs.20/- on this transaction.

In this transaction your first leg of the trade was to buy Wipro at Rs.405, and the second leg was to sell Wipro at Rs.425, and you were bullish on the stock.

Going forward, on day 4, the stock is still trading at Rs.425, and you are now bearish on the stock. You are convinced that the stock will trade lower at Rs.405 in few days time. Now, is there a way you can profit out of your bearish expectation? Well, you could, and it can be done so by shorting the stock.

You sell the stock at Rs.425, and 2 days later assuming the stock trades at Rs.405, you buy it back.

If you realize the first leg of the trade was to sell at Rs.425, and the second leg was to buy the stock at Rs.405. This is always the case with shorting – you first sell at a price you perceive as high with an intention of buying it back at a lower price at a later point in time.

You have actually executed the same trade as buying at Rs.405 and selling at Rs.425 but in reverse order.

An obvious question you may have – How can one sell Wipro shares without owning it. Well you can do so, just like the way I sold a phone that I did not own.

When you first sell, you are essentially borrowing it from someone else in the market, and when you buy it back, you actually return the shares back. All this happens in the backend, and the stock exchange facilitates the process of borrowing, and returning it back.

In fact when you short a stock, it works so seamlessly that you will not even realize that you are borrowing it from someone else. From your perspective, all you need to know is that when you are bearish on the stock, you can short the stock, and the exchange takes care of borrowing the stock on your behalf. When you buy the stocks back, the exchange will ensure the stocks are returned back.

To sum it all up...

a.When you short, you have a bearish view on the stock. You profit if the stock price goes down. After you short, if the stock price goes up, you will end up making a loss

b.When you short you essentially borrow from another market participant, and you will have to deliver these shares back. You need not worry about the mechanics of this. The system will ensure all this happens in the background

c.Shorting a stock is easy – either you call your broker and ask him to short the stock or you do it yourself by selecting the stock you wish to short, and click on sell

d.For all practical purposes, if you want to short a stock, and hold the position for few days, it is best done on the derivatives markets

e.When you are short, you make money when the stock price goes down. You will make a loss if the stock price goes up after you have shorted the stock.

To summarize long and short positions as per table 8.1 in the following page........

Table 8.1- Long and short positions

Position	1st Leg	2nd Leg	Expectation	Make money when	You will lose money if
Long	Buy	Sell	Bullish	Stock goes up	Stock price drops
Short	Sell	Buy	Bearish	Stock goes down	Stock price goes up

Square off – Square off is a term used to indicate that you intend to close an existing position. If you are long on a stock squaring off the position means to sell the stock. Please remember, when you are selling the stock to close an existing long position you are not shorting the stock!

When you are short on the stock, squaring off position means to buy the stock back. Remember when you buy it back, you are just closing an existing position and you are not going long!

Table 8.2 - Square off positions

When you are	Square off position is
Long	Sell the stock
Short	Buy the stock

Intraday position – Is a trading position you initiate with an expectation to square off the position within the same day.

OHLC – OHLC stands for open, high, low and close. We will understand more about this in the technical analysis module. For now, open is the price at which the stock opens for the day, high is the highest price at which the stock trade during the day, low is the lowest price at which the stock trades during the day, and the close is the closing price of the stock. For example, the OHLC of ACC on 17th June 2014 was 1486, 1511, 1467 and 1499.

Volume – Volumes and its impact on the stock prices is an important concept that we will explore in greater detail in the technical analysis module. Volumes represent the total transactions (both buy and sell put together) for a particular stock on a particular day. For example, on 17th June 2014, the volume on ACC was 5, 33,819 shares.

Market Segment – A market segment is a division within which a certain type of financial instrument is traded. Each financial instrument is characterized by its risk and reward parameters. The exchange operates in three main segments.

a.Capital Market – Capital market segments offers a wide range of tradable securities such as equity, preference shares, warrants and exchange traded funds. Capital Market segment has sub segments under which instruments are further classified. For example, common shares of companies are traded under the equity segment abbreviated as EQ. So if you were to buy or sell shares of a company you are essentially operating in the capital market segment

b.Futures and Options – Futures and Option, generally referred to as equity derivative segment is where one would trade leveraged products. We will explore the derivative markets in greater depth in the derivatives module

c.Whole sale Debt Market – The whole sale debt market deals with fixed income securities. Debt instruments include government securities, treasury bills, bonds issued by a public sector undertaking, corporate bonds, corporate debentures etc.