Glossary

Equities

An asset class within markets that trades financial instruments on singles stocks or indices (which are a group of stocks traded together).

Stocks

Shares in a company, riskier than bonds (loans are always repaid before shareholders in case of defaults – company goes under.) Shares typically pay dividends to the holder, however sometimes an early company will pay no dividends but rely on capital gains for their stocks to be attractive.

S&P500

A free float weighted measurement stock market index of the 500 largest companies listed on US stock exchanges. A commonly traded macro index.

FX

Forex trading, also known as foreign exchange or FX trading, is the conversion of one currency into another. FX is one of the most actively traded markets in the world, with individuals, companies and banks carrying out around $6.6 trillion worth of forex transactions every single day.

Forex Pair

A forex pair is a combination of two currencies that are traded against each other. There are hundreds of different combinations to choose from, but some of the most popular include the euro against the US dollar (EUR/USD), the US dollar against the Japanese yen (USD/JPY) and the British pound against the US dollar (GBP/USD).

USD/JPY

USD/JPY is the abbreviation used to denote the currency exchange rate for the U.S. dollar and Japanese yen. The currency pair shows how many Japanese yen (the quote currency) are needed to purchase one US dollar (the base currency).

Despite the struggles of the Japanese economy in the 21st century, the yen remains a safe haven currency, meaning that in times of market turmoil, investors seek refuge in the Japanese yen causing it to appreciate. This was evident during the Great Recession, where it traded from above ¥120 in 2007, to below ¥90 in 2009.

Gold

Many people fail to realize that gold is a currency under the current system. Gold has often been thought of in relation to the U.S. dollar, mainly because it is usually priced in U.S. dollars. There is a long-term negative correlation between the dollar and gold prices. These factors must be considered when we see that the price of gold is simply an exchange rate. Just as one can exchange U.S. dollars for Japanese yen, a paper currency can be exchanged for gold.

Without the gold standard, the price of gold fluctuates freely in the market. Gold is seen as a safe haven, and a rising gold price is often an indicator of underlying economic problems.

Fixed Income securities:

asset class (category of financial instrument) that entitles the investor to receive a stream of fixed payments (periodic interest in the form of coupons) and the principal amount (usually 1,000$) at maturity. In short it is a debt instrument. The most common form of fixed income securities are bonds. Bonds vary greatly among each other depending on: issuer (credit quality), interest (coupon), maturity. The investment return on a bond is called yield. Bond prices and yield have an inverse relationship: when yield rises, bond prices drop.

Based on the issuer bonds can be classified into:

- **Government bonds (Rates)**: these are bonds issued by governments and are considered very safe as the probability of default of a government is very small. This is especially true, for stable governments of big economies like the US and Germany. Bonds issued by these countries are considered "safe haven" assets and rise in price (their yield drops) in a risk off scenario, when investors fear a slowdown in the economy, as investors are looking for a safe investment where to place the money. The US 10 year maturity (the 10 year Treasury) and the German 10 year maturity (called Bund) bonds are considered bellwether government bonds, guiding the direction of broader market sentiment for the asset class.
  Investors that buy government bonds face interest rate risk, that is the risk that the value of the investment changes from movements in the general level of interest rates.
- **Corporate bonds (Credit)**: bonds issued by companies, they are considered riskier with respect to government bonds, as the probability of default of a company is higher than that of a government. Investors that buy these bonds face credit risk and interest rate risk. Because of this, investors earn a higher yield/return compared to rates securities. Corporate bonds are usually assigned a rating, which is a synthetic indicator of the credit worthiness of the issuer (ability of making coupon payments and repay the principal at maturity). Based on this, corporate bonds can be further distinguished into Investment Grade bonds, bonds with credit ratings higher than BBB-, with better credit worthiness, and High Yield bonds, bonds with higher probability of default. Because of the greater risk investors face, yields of HY bonds are larger than IG bonds.
  Investors can buy single corporate bonds or buy an index of corporate bonds via ETFs, for example LQD US Equity is an index of 2,443 $ denominated IG corporate bonds of approx. 12 years maturity.

ETFs: are funds (pool of assets) which shares are traded on exchanges and allow investors access investments at low cost.