**Finance Terminology**

Recently, I developed a curiosity to learn about Stock Market and trust me it is worth spending time on this topic and you will also develop an interest for sure, once you start reading about it.

In this series of blog, I am going to explain you about the Stocks, their Identifiers and many more terminologies related to Stock Markets which are used heavily in the Stock Market.

**Stock:**

A Stock is a type of security that signifies an ownership in a company and can claim on the company assets and earnings. Stocks are also known as ‘Shares’ or ‘Equity’.

There are mainly two types of Stocks:

* Common Stock
* Preferred Stock

**Common Stock:**

1. Equity, an ownership in a company.
2. Payouts to stocks are basically dividends, in two forms:

* Cash Payout
* Stock Payout

1. Payouts are uncertain in magnitude and earnings. It depends on the how much earnings, company are making.
2. Equity can be sold to any entity whether it is a private or public.

**Key Characteristics of Common Stock:**

* Residual claimant to corporate assets (after bondholders, preferred stock holders and other debtholders are paid).
* Limited Liability: It is an advantage as shareholders will be responsible for the debts of company only to the extent of value of their shares.
* Voting Rights: Elects a board of directors and votes based on corporate policy.
* Access to public markets and ease of shortsales.

**Short-Selling:**

Short selling is a key concept, which makes it possible to sell stocks or instruments what one does not own. In simple terms, this concept allows you to borrow some stocks or instruments from your lender and sell (here sell is basically referred as short sell) it at current market price. Once the market price for that stocks or instruments declines, you buy it again and return it to the lender. The overall difference between the price at which you sold and purchased the stock or instrument defines your profit/loss for that short sale.

**Preferred Stock:**

Preferred Stock as compared to Common Stocks has higher claim on the assets or earning of the companies. In simple terms, dividends payout preference will be given to Preferred Stocks as compared to Common Stocks.

Preferred Stocks combines features of debt that means dividend payout will be fixed. It also doesn’t have any voting rights.

**Bonds:**

Bonds are product issued by corporate and government entities to finance and expand their projects. The issuer promises to pay interests annually or biannually to the investors and the principal amount on the maturity date.

There are mainly two types of bonds:

* Corporate Bond: These kinds of bonds are issued by companies are either can be investment grade or non-investment grade bond. Investment grade bonds are issued by stable companies with low risk of default so it assures you low interest while in case of non-investment grade bonds interest rates will be high but companies are not stable resulting in more risk of default.
* Government Bond: These kinds of bonds are issued by cities, country and states to fund capital projects, such as building roads, schools and hospitals.

**Entities and Asset Classes:**

1. Equities: Defined in previous Blog. Please refer Finance Terminology Part I.
2. Fixed-Income Securities:

* A Fixed-Income security is a debt instrument that promises the fixed returns in form of interests paid to investors.
* The issuer also returns the principal amount to the investor on the maturity date.
* The most common type of fixed income securities are bonds (As defined above).

1. Indices:

* Is used to measure the changes and performance of securities market.
* It is created by third-party.
* Each index has its own calculation methodology.
* For Example: Dow Jones Industrial Average (DJIA) is also a very well-known index, but it only represents stock values from 30 of the nation's publicly traded companies.

1. Derivatives:

* Derivative is a financial security whose value depends or derived from other assets or group of assets.
* Two main types of derivatives are Futures and Options.
* Future is an agreement between two parties for the sale of an assets on the price and date agreed by both the parties.
* Options is like the Future; the only difference is that buyer is not obligated to make transactions if he/she not to.

1. Entities:

* An entity is the party in a financing arrangement that provides money, property, or another asset to an intermediate entity or financed entity. A entity receives a fee for providing financing.