



## Glossary of Investment Terms

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**Analyst** – A financial professional who has expertise in evaluating investments and puts together "buy", "sell" or "hold" recommendations for securities. They may be also known as a "financial analyst" or a "security analyst". Analysts are typically employed by broking firms, investment advisors or mutual funds. They do the leg work for brokers, preparing the research they use for trading. Analysts usually specialize in specific industries or sectors to allow for comprehensive and specialized research capacity.

**Ask price** – See *Bid/Ask prices*.

**Asset** – There are multiple definitions of an asset:

1. Something valuable that an individual or entity owns, benefits from or has use of, in generating income.
2. An item with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit.
3. Property (not only real estate) owned by a person or company, regarded as having value and available to meet debts, commitments or legacies.

**Asset allocation** – An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon (timeline). The three main asset classes—equities, fixed-income and cash/cash equivalents—have different levels of risk and return, and each will behave differently over time. Asset allocation is the single most important thing an investor should practice.

**Auditor** – An individual who is qualified to perform financial and accounting audits. An auditor is appointed to examine, correct and verify the accuracy of records and financial accounts, and to form an opinion about the authenticity and correctness of such records, by verifying the accuracy and reliability of the recorded transactions from the evidence available. They are expected to perform an unbiased evaluation. An auditor can be an internal employee or an external consultant.

**Bid/Ask prices** – The "bid" is the highest price a buyer will pay to buy a share of stock from at any given time. The "ask" is the lowest price at which the seller will sell the stock. The bid price is almost always lower than the ask price. This information is only seen by brokers and investors who have access to a trading screen. These prices fluctuate throughout a trading day as shares are bought and sold.

**Bonds** – Debt investments in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, states and federal governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash/cash equivalents. The indebted entity (issuer) issues a bond that states the interest rate (coupon) that will be paid and when the loaned funds (principal) are to



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be returned (maturity date). Interest is usually paid every six months (semi-annually) and in some cases, annually. The main categories of bonds are corporate bonds, federal bonds and state bonds, notes and bills, commonly referred to as “Treasuries”. Two features of a bond—credit quality and duration—are the principal determinants of a bond's interest rate. Bond maturities range from a 90-day treasury bill (T-bill) to a 30+ year government bond; corporate and states are typically in the three (3) to 10-year range.

**Bonus issue** (or *scrip issue* or *stock split* or *capitalization issue*) – A corporate action in which a company's existing shares are divided into multiple shares. The issue of shares to shareholders is in proportion to their existing holdings. A company may decide to distribute such shares as an alternative to increasing the dividend payout. Although the number of shares outstanding increases by a specific multiple, the total naira value of the shares remains the same. In this process, fractions of shares may arise; they are often aggregated and sold, after which a cash payment, in respect of the fraction sold, is made to the appropriate shareholder.

**Broker** (or *stock broker* or *dealing clerk*) – An individual that executes buy and sell orders submitted by an investor. They are the only persons permitted to transact business on the floor of the stock exchange or in the OTC market. A broker must be employed by a dealing member, and must pass both the *Chartered Institute of Stockbrokers Exam* and the *Nigerian Stock Exchange Authorised Clerkship Exam* to be licensed to trade on the NSE floor. Stock brokers provide advice and make recommendations to their clients, but must have a client instruction **before** executing a trade behalf of that client. They usually charge a commission for the service they render their clients.

**Broker-Dealer** – Company or individual that is both a broker and a dealer.

**Capital stock** – Shares authorized by a firm's charter and having par value, stated value or no par value. Capital stock is any of various shares of ownership in a business. They include common stock of various classes and any preference stock that is outstanding. If a firm has only a single class of capital stock outstanding, the terms *common stock* and *capital stock* are often used interchangeably. The number and the value of issued shares are usually shown, together with the number of shares authorized, in the capital accounts section of the balance sheet.

**Closed-end fund** (or *closed-end investment* or *closed-end company*) – A collective investment scheme with a limited number of shares. It is a publicly traded investment company that raises a prescribed amount of capital only once through an initial public offering (IPO). The shares are listed and traded on an exchange. Stocks of a closed-end fund represent an interest in a specialized portfolio of securities. The portfolio is managed by an investment adviser. The securities in the portfolio typically concentrate on a specific industry, geographic market or sector. The stock price of the fund fluctuates with the changing values of the securities in the fund's holding, and as shares of the fund are bought and sold.

**Common stock** – See **Stock**.

**Corporate bond** (or *corporate loan* or *corporate note* or *debenture*) – A bond issued by a company. It is a bond that the company sells to “borrow” money in order to expand its business. The company promises to pay the investor (the lender) back on a future maturity date and pay interest in the meantime. There are different kinds of corporate bonds. In some cases, repayment may be secured by specific assets (e.g., cash, securities, real estate or equipment) which can be seized if



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the company fails to pay interest or return the original principal when the bond matures. Others that are not secured (debentures) are merely a promise to pay the investor back, as documented in an agreement called an indenture. Corporate bonds do not give investors an ownership interest in the issuing company, but they often have added features, including giving investors the option to convert their bonds into the company's stock, or the company may have the right to buy back the bonds before they mature in order to refinance their debt. Typically, globally, there are five main classes of issuers of corporate bonds: (1) public utilities; (2) transportation companies; (3) industrial corporations; (4) financial services companies; and (5) conglomerates.

**Coupon** – The interest rate stated on a bond when it's issued. The coupon is typically paid semi-annually. This is also referred to as the "coupon rate" or "coupon percent rate".

**CSCS** – Central Securities Clearing System Ltd. is licensed by the SEC as a central securities depository (CSD). A CSD facilitates the delivery (transfer from seller to buyer) and settlement (payment) of traded securities. The CSCS enables securities transactions to be processed electronically. The company's primary functions include:

- Central depository for electronic share certificates of companies listed on the Exchange
- Sub-registry for all listed securities (in conjunction with registrars of listed companies)
- Issuer of central securities identification numbers to shareholders
- Custodianship (in conjunction with custodians of local and foreign instruments)

CSCS offers investors online account access to view their securities portfolios. Investors must first select a broker before an account can be opened with the CSCS.

**Custodian** – Agent, such as a bank, a trust company or other organization, which holds and safeguards an individual's, a mutual fund's, or an investment company's assets for them. They have the legal responsibility for their customers' securities, which implies management and safekeeping. Custodians usually charge a fee for the service they provide.

**Data vendor** – Firms that provide data to financial market operators and investors. Distributed data is collected from an exchange's live feeds, broker and dealer desks, and regulatory bodies. The types of data offered varies by vendor and most typically, covers information about entities (companies) and instruments (shares, bonds, etc.) which companies might issue.

**Dealer** – An individual or firm that buys and sells securities or "takes positions" for itself, or for its own account. Securities bought for the firm's own account may be sold to clients or other firms, or become a part of the firm's holdings.

**Dealing member** – Institution (stock broking firm) that is licensed by The Nigerian Stock Exchange and charges a fee or commission to buy or sell securities listed on the NSE's platform (the exchange) on behalf of investors. The institution must be incorporated and registered under the Companies and Allied Matters Act, and must meet specific requirements set by the NSE to receive a dealing member license. As foreign investors are legally qualified to participate in the ownership of Nigerian stock broking firms, dealing members can also enter into any form of partnership with foreign stock broking firms.



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**Debenture** – A medium- to long-term debt instrument used by large companies to borrow money. The term may be used interchangeably with bond, loan or note. A debenture is generally freely transferable by the holder who has no rights to vote in the company's general meetings of shareholders, but who may have separate meetings or votes, for example, on changes to the rights attached to the debentures. The interest paid to holders is a charge against profit in the company's financial statements. A debenture may be convertible into equity shares of the issuing company after a predetermined period of time; it may also be non-convertible, and would usually carry a higher interest rate than a convertible debenture.

**Debt security** – A debt instrument that can be bought or sold between two parties and has basic terms defined, such as amount borrowed (nominal or notional amount), interest rate, and maturity/renewal date. Debt securities include government bonds, corporate bonds, certificates of deposit (CD), state and local bonds, collateralized securities (such as CDOs, CMOs, GNMA) and zero-coupon securities. Most debt securities are traded over-the-counter. Debt securities get their measure of safety by having a principal amount that is returned to the lender (investor) at the maturity date or upon the sale of the security. They are typically classified and grouped by their level of default risk, the type of issuer and their income payment cycles.

**Delisting** – The removal of a listed security from the exchange on which it trades. Stock may be removed from an exchange because the company for which the stock is issued may (1) voluntarily or involuntarily not be in compliance with the listing requirements of the exchange; (2) choose, with the approval of its shareholders, to voluntarily delist; or (3) be acquired by another company. Delisting of a debt product such as a bond occurs on the maturity date (day of repayment) of the principal (loan amount) to investors.

**Derivatives** – A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties, and its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indices. Most derivatives are characterized by high leverage. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.

**Dividend** – A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the naira amount each share receives (dividends per share). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.

**Dividend per share (DPS)** – The the sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

**Earnings per share (EPS)** – The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. It is calculated by dividing the *net earnings* (income or turnover) by the *number of outstanding shares*.  
**EPS = Net Earnings / Outstanding Shares**

**Equity** – The meaning is dependent on the context in which the term is used:

1. A stock (share) or any other security representing an ownership interest. See **Stock**.



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2. On a company's balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses). See **Shareholders equity**.
3. In the context of margin trading, the value of securities in a margin account minus what has been borrowed from the brokering firm.
4. In the context of real estate, the difference between the current market value of the property and the amount the owner still owes on the mortgage, if applicable. It is the amount that the owner would receive after selling a property and paying off a mortgage.
5. In terms of investment strategies, equity (stocks) is one of the principal asset classes; the other two are fixed-income (bonds) and cash/cash-equivalents. These are used in asset allocation planning to structure a desired risk and return profile for an investor's portfolio.

**Ex-Dividend** – A classification of trading shares when a declared dividend belongs to the seller rather than the buyer. A stock will be given ex-dividend status if a person has been confirmed by the company to receive the dividend payment. The person who owns the security on the ex-dividend date is awarded the payment, regardless of who currently holds the stock. See **Dividend**.

**Ex-Dividend date** – The day on and after which the right to receive a current dividend is not transferred from seller to buyer. After the ex-date is declared, the stock will usually drop in price by the amount of the expected dividend.

**Ex-Rights** – Shares that are trading but which no longer have rights attached because they have either expired, been transferred to another investor, or been exercised. Ex-rights shares are worth less than shares which are not yet ex-rights because they do not give a shareholder access to a rights offering. Renounceable rights may trade separately, allowing a shareholder to choose sell his or her rights, rather than exercise them. See **Rights**.

**Ex-Rights date** – The date when a buyer of common stock is no longer entitled to the rights that had been declared for the security.

**Exchange Traded Fund (ETF)** – A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. An ETF experiences price changes throughout the day as it is bought and sold, just like a stock. For this reason, it does not have its net asset value (NAV) calculated every day like a mutual fund. ETFs provide the diversification of an index fund, as well as the ability to sell short, buy on margin, and purchase as little as one share. Their expense ratios are lower than those of the average mutual fund, and brokers' commissions (fees) for buying and selling ETFs are similar to the commissions investors pay for buying and selling stocks.

**Financial adviser** – See **Investment adviser**.

**Foreign investor** – Any investor who participates financially in a country other than the investor's own. This can happen on any scale, from a foreign national buying securities to a major corporation buying out a company based in a foreign country.

**Growth stock** – A stock which typically does not pay a dividend, as the company declares its choice to reinvest earnings in capital projects. In the US, for example, most technology companies



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are segmented as growth stocks. Currently in Nigeria, a company with a 5-year average dividend payout of < 30% of earnings is classified as a growth stock.

**Income stock** – A stock that pays regular dividends, and offers a high yield that may generate the majority of overall returns. Income stocks may require a lower level of ongoing capital investment, thus, profits can be directed back to investors on a regular basis. In the US, income stocks are most commonly companies operating within real estate (e.g., real estate investment trusts—REITs), energy sectors, utilities, natural resources and financial institutions. Currently in Nigeria, a company with a 5-year average dividend payout of  $\geq 30\%$  of earnings is classified as an income stock.

**Institutional investor** – A non-bank entity with large amounts to invest, such as investment companies, mutual funds, insurance companies, pension funds, investment banks and endowment funds. They usually trade securities in large share quantities or large monetary amounts.

**Investment adviser** (or *investment advisor* or *financial adviser* or *financial advisor*) – Institutions or individuals in the business of providing advice to others about investment securities, for a fee. This service is usually a supplementary service of a stock broking or issuing house business. Investment advisers are registered by the statutory regulatory agency, the Securities and Exchange Commission (SEC) of Nigeria.

**Investment bank** – An individual or institution which acts as an underwriter or agent for corporations and municipalities issuing securities. Investment banks also have a large role in facilitating mergers and acquisitions, private equity placements, and corporate restructuring. Unlike traditional banks, investment banks do not accept deposits from or provide loans to individuals. The two main lines of business in investment banking are (1) trading securities for cash or for other securities (i.e., facilitating transactions, market-making) or the promotion of securities (i.e., underwriting, research, etc.), known as the "sell side"; and (2) dealing with pension funds, mutual funds, hedge funds and the investing public (i.e., consumers of the products and services of the sell-side), known as the "buy side".

**Investment product** (or *security* or *investment instrument*) – An instrument (contract) that can be assigned a value and traded. It represents ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives). The purpose of owning an investment product (security) is usually to get your money back, or to get more money in the form of interest, capital appreciation or both. The two main types of securities are **equity** and **debt**. Examples of investment products include notes, stocks, preference stock, bonds, debentures, options, futures, swaps, rights, warrants, or virtually any other financial asset.

**Investor** – Person or entity that purchases assets with the objective of receiving a financial return. The assets an investor may buy range widely, but include stocks, bonds, real estate, commodities and collectibles (e. g., art). The portfolio of an investor commonly includes a variety of assets that balance the rewards and risks of each investment. See **Private investor**, **Institutional investor**, **Professional investor**, **Foreign investor**.

**Issuer** – A legal entity that develops, registers and sells securities for the purpose of financing its operations. Issuers may be corporations, domestic or foreign governments, or investment trusts. Issuers are legally responsible for the obligations of the issue, and for reporting financial conditions, material developments and any other operational activities, as required by the regulations. The



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most common types of securities issued are common and preference stocks, bonds, notes, debentures, bills and derivatives.

**Issuing house** – A financial institution that engages in finding capital for established companies, for private firms wishing to convert to public companies, or for governments, by issuing shares on their behalf. They are responsible for packaging new issues for subscription and for bringing them to the market, including assembling the team for a new issue, e.g., solicitors, registrars, brokers, etc., preparing the prospectus, and successfully working with the broker to obtain approval from the exchange to list the issue. An issuing house may also be a dealing member, but cannot play the role of issuing house and broker for the same issue.

**Listing** – The process whereby a security is admitted to a market or board of a stock exchange. Upon listing, the security becomes tradable. All exchanges have specific requirements which issuers must satisfy in order for their securities to be listed and remain listed. There are different ways a security can be admitted to trade on an exchange:

1. **Initial Public Offering (IPO)** – The first sale of a security by a company to the public. When the securities are listed on a public exchange such as the NSE, the money paid by investors for the newly issued equities goes directly to the issuer. An IPO allows an issuer to tap a wide pool of investors that provide capital for future growth, repayment of debt or working capital. A company selling common shares is never required to repay the capital to investors. IPOs usually involve one or more investment banks (i.e., underwriters) with whom the issuer enters into a contractual agreement to sell its securities to the public. Public offerings are sold to both institutional investors and retail clients of underwriters. IPOs also involve one or more law firms specializing in securities law.
2. **Secondary Offering** – A subsequent listing of securities already in issue. This can be new securities for public sale from a company that has already done an IPO. In many cases, this type of offering is made by companies looking to refinance or raise capital for growth. This type of listing increases outstanding shares, and spreads a company's market capitalization (value) over a greater number of shares. It also dilutes the positions of shareholders owning previously issued shares.

Another type of secondary listing is the sale of securities owned by major shareholders in a company. They may choose to sell all or a large portion of their holdings. In such cases, the offering is triggered by founders of a business (or the original financiers) wanting to decrease their positions in a company. This kind of offering does not increase the number of outstanding shares. It usually happens gradually to ensure no negative effects on the price of the equity, and it does not dilute the positions of shareholders owning previously issued shares.

3. **Merger/Acquisition** – A company may be listed as a result of a merger with or an acquisition by an already listed company.

**Liquidity** – The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.

**Market capitalization** (or *market cap*) – The total market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's outstanding shares by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures.



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**Market maker** – A broker-dealer firm that accepts the risk of holding a certain quantity of a particular security, in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of securities. If these prices are met, they will immediately buy for or sell from their own accounts. This process takes place in mere seconds. Market makers are very important for maintaining liquidity and efficiency for the securities they make markets in. Market makers are required to maintain a strict separation of the market-making side and the brokerage side of their business, to prevent their brokers from recommending a specific security simply because the firm makes a market in that security. A market maker makes money by buying stock at a lower price than the price at which they sell it, or selling the stock at a higher price than they buy it back. Ordinarily they can make money in rising or falling markets, by taking advantage of the difference between "bid" and "offer" prices.

**Market operator** – Professional intermediaries that offer specialized capital market services in various forms, including buying and selling securities, providing investment advice, making a market, auditing accounts of companies who have raised capital from the market, providing legal advice to investors and issuers, managing investment portfolios, and underwriting securities, among others.

**Market trend** – The general direction of a market – typically up/rising (bullish), down/falling (bearish) or steady. Trends can vary in length from short, to intermediate, to long term.

**Markets** – A stock exchange has the ability to trade different investment products (securities). As a result, a stock exchange can create different markets in which different securities trade. These markets are usually an electronic platform that can accommodate the rules for trading a specific security. The Nigerian Stock Exchange currently lists three (3) types of products on three (3) boards—*equities* (stock, preference stock, structured products), *bonds* (corporate, federal and state/local) and *ETFs*—that are traded on three (3) different boards.

**Mutual fund** – A professionally managed type of collective investment scheme that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, other mutual funds, other securities, and/or commodities). A mutual fund is usually an open-ended fund and has a fund manager that trades (buys and sells) the fund's investments in accordance with the fund's investment objective. A fund's investment objectives (and or its names) define the type of investments in which the fund invests. In return for one's investment, shareholders receive an equity position in the fund, and in effect, in each of the fund's underlying securities. A fund's net asset value (NAV) is calculated every day. While funds offer a choice of liquidity and convenience, they charge fees and often require a minimum investment. A contractual investment advisory fee is charged for the management of the fund's investments, along with other fees. Some of the more significant (in terms of amount) are a transfer agent expense, custodian expense, legal/audit expense, fund accounting expense, registration expense, board of directors/trustees expense, etc. Shareholders are free to sell their shares at any time, although the price of a share of the fund will fluctuate daily, depending upon the performance of the securities held.

**Net Asset Value (NAV)** – Used to calculate the 'per share' Naira amount of a fund. NAV represents the fund's market price. It is derived by taking the total value of all the securities in the



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fund (or portfolio) minus any liabilities divided by the number of shares outstanding. **NAV = Total Value of Securities - Liabilities / Shares Outstanding**

**Nominal value** (or *face value* or *par value* or *notional amount*) – The value of a security that is set by the company issuing it; unrelated to market value. For stocks it is the original cost of the stocks; for bonds it is the amount paid to the holder at maturity.

**Open-ended fund** – A collective investment scheme with an unlimited number of shares. There are no restrictions on the amount of shares the fund may issue. It can issue and redeem shares at any time since investors purchase shares from the fund itself than from existing shareholders. If demand is high, the fund will continue to issue shares -- there is no limit to the fund size, and the price of the units does not rise and fall in response to demand. Open-end funds also buy back shares when investors wish to sell. The value at which shares are bought or sold is directly linked to the fund's Net Asset Value (NAV). Shares in open-ended funds are purchased from the fund itself or one of its agents; they are not traded on exchanges.

**Outstanding shares** – Stock currently held by investors, including restricted shares owned by the company's officers and insiders, as well as those held by the public. Shares that have been repurchased (bought back) by the company are not considered outstanding stock.

**Portfolio** – A portfolio may contain a combination of investments, including bank accounts, bonds, stocks, deeds and businesses. Any investment instrument that is likely to retain its value and/or produce a return can be included in an investment portfolio. Types of instruments vary based on individual circumstances and investment goals. Portfolios are constructed based on an investor's budget and short- and long-term goals. Different types of investment instruments offer different rates of return and carry their own unique degree of risk.

**Portfolio manager** – Institutions that manage the investment portfolios of clients. They receive funds to be invested in securities, most often, of their own choice. They are required to exercise discretion in the best interest of their clients, and to provide their clients periodic statements, clearly detailing all investment positions.

**Preference stock** (or *preference shares* or *preferred stock* or *preferred shares*) – A special equity security that has properties of both an equity (potential appreciation) and a debt instrument (fixed dividends)—a hybrid instrument. They provide a class of ownership in a corporation that has a higher claim on the assets (in the event of liquidation) and earnings than common stock, but are subordinate to bonds. Preference stock generally has a dividend that must be paid out before dividends to common shareholders and the shares usually do not have voting rights. Precise details about the structure of preference stock are specific to each company and are stated in a *Certificate of Designation*. Although they may be convertible into common stock, they are rated by credit rating companies, and are callable at the option of the corporation. Preference stocks offer the issuer an attractive alternative and cost-effective form of financing—e.g., a company can defer dividends by going into arrears without much of a penalty or risk to their credit rating; they are also useful as a means of preventing hostile takeovers.

**Price-to-earnings ratio** (or *P/E ratio* or *P/E*) – The relationship between the stock price and the company's earnings. It is a measure of the price paid for a share, relative to the annual net income or profit earned by the company (per share). The P/E is a financial ratio used for valuation: a higher



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P/E means investors are paying more for each unit of net income, so the stock is, technically, more expensive. P/E is calculated as *stock price* divided by *annual earnings per share* (typically the net income of the company for the most recent 12-month period divided by the number of shares issued). **P/E = Stock Price / EPS**

**Private investor** (or *retail investor* or *individual investor*) – An individual (not a corporation, partnership, proprietorship or any other entity whatsoever) who purchases securities for himself or herself—specifically for his/her personal investment portfolio—is not registered with any securities agency, regulatory or self-regulatory body, and is not in any way engaged in providing investment services.

**Professional investor** (or *broker-dealer*) – A corporation, partnership, proprietorship or any other entity whatsoever that purchases securities for the entity's investment portfolio; or a natural person registered with any securities agency, regulatory or self-regulatory body, and is engaged in providing investment services.

**Real Estate Investment Trust (REIT)** – A security that sells like a stock and invests in real estate directly, either through properties or mortgages. There are three types of REITs:

1. Equity REITs: Invest in and own properties (thus responsible for the equity or value of their real estate assets). Their revenues come principally from their properties' rents.
2. Mortgage REITs: Deal in investment and ownership of property mortgages. These REITs loan money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans.
3. Hybrid REITs: Combine the investment strategies of equity REITs and mortgage REITs by investing in both properties and mortgages.

**Receiving agent** – Banks and stock broking firms appointed by the issuing houses to serve as centres for the distribution of offer application forms, as well as for the receipt of subscription monies, on behalf of an issuing house. Receiving agents charge a fee for the service they offer.

**Receiving bank** – Banks designated by an issuer to receive proceeds.

**Registrar** – An institution, usually a bank or a trust company that is responsible for keeping records of shareholders and bondholders. They ensure that the amount of shares outstanding in the market matches the amount of shares authorized by the company. For bonds, the registrar also makes sure that the company's obligation from a bond issue is certified as being an actual legal obligation. They perform corporate actions for the companies they represent, arrange general and extraordinary meetings, distribute annual reports and notices of shareholders' meetings, and verify/reconcile investors' claims with the depository of the CSCS.

**Reporting accountants** – Accounting firms which provide independent assessments of issuer accounts. They also examine and review forecasts, and prepare the issuer's statement of indebtedness, among other things.

**Return on assets (ROA)** – An indicator of how profitable a company is relative to its total assets. ROA tells investors how much profit a company generated for each N1 in assets. It measures how



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effectively a company is converting the money it has to invest (shareholders' capital plus short and long-term borrowed funds) into net income. It is considered the most stringent test of return to shareholders. Companies such as telecommunication providers, car manufacturers and railroads are very asset intensive, meaning they require big, expensive machinery or equipment to generate a profit. If a company has no debt, the ROA and ROE figures will be the same. ROA is a company's *annual earnings* divided by its *total assets*. It is expressed as a percentage. Sometimes this is referred to as "return on investment". **ROA = Net Income / Total Assets**

**Return on equity (ROE)** – The amount of net income returned as a percentage of shareholder equity. Return on equity measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. More simply, it shows how well a company uses investment funds to generate earnings growth; how efficiently it uses its assets to produce earnings. ROE is expressed as a percentage. It may be more meaningful to look at ROE over a period of five years rather than one year. **ROE = Net Income / Shareholder Equity**

**Reverse stock split** – A reduction in the number of a company's shares outstanding that increases the par value of its stock or earnings per share (EPS).

**Rights** (or *subscription rights* or *share purchase rights*) – When a company wants to raise additional capital, it may give stockholders entitlement to purchase new shares at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire. Failure to exercise or sell rights is an actual loss to the stockholder. Rights are a basic form of derivatives.

**Risk** – The chance that an investment's actual return will be different than the expected return. With all investments there is an element of risk, desirable or undesirable. The basic definition for investment risk is *deviation from an expected outcome*. This can be either positive or negative.

**Scrip issue** – See *Bonus issue*.

**SEC** – The Securities and Exchange Commission of Nigeria is the statutory regulatory agency of the Nigerian capital market. The SEC is a government agency mandated to regulate and develop the Nigerian capital market.

**Security** – See *Investment product*.

**Securities lending** – The act of loaning a stock, derivative, other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.

**Share price** – The Naira value of a single share (stock) of a company's tradable stocks.

**Share value** – See *Nominal value*.

**Shareholders' equity** (or *share capital* or *stockholders' equity* or *book value*) – The net worth of a company. It is derived by taking the company's *total assets* and subtracting the *total liabilities*.



## Glossary of Investment Terms

Another way to calculate shareholder equity is *share capital* plus *retained earnings* minus *treasury shares*. It represents the amount by which a company is financed through common and preferred shares. The shareholders' equity number is usually located on a company's balance sheet.

**Short selling** – The selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short.

**Solicitor** – Law firm which represents an issue or the issuer. In practice, two solicitors are required for a public issue of securities—one solicitor for the issuer and one for the issue. On the issuer (the company) side, the solicitor ensures the *Memorandum and Articles* are in compliance with the legal requirements of a public company and also ensures the company, based on authorized capital, can accommodate the issue being proposed.

**Stock** (or *common stock* or *share*) – A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than common shares.

**Stock broker** (or *stockbroker*) – See **Broker**.

**Stock exchange** (or *securities exchange* or *bourse*) – Organized and regulated financial market where securities (stocks, bonds, notes, options, etc.) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges serve as (1) primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and (2) secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment, and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties.

**Stock split** – See **Bonus shares**.

**Structured Products** – A pre-packaged investment strategy based on derivatives, such as a single security, a basket of securities, indices, commodities, debt issuance, options and/or foreign currencies. They are specially created to meet specific needs that cannot be met from standard financial instruments available in the market. They are designed to facilitate highly customized risk-return objectives. This is accomplished by taking a traditional security, such as a bond, and replacing the usual payment features (e.g., periodic coupons and final principal) with non-traditional payoffs derived from the performance of one or more underlying assets, not from the issuer's own cash flow. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to utilize a current market trend.

**Subscription period** – The span of time during which investors may buy a new issue of securities. Subscription periods have definitive end dates, after which the rights to subscribe will expire.

**Ticker** – The meaning is dependent on the context in which the term is used.



## **Glossary of Investment Terms**

1. Ticker Symbol – Specific codes used to identify publicly traded equities (or companies).
2. Stock Market Ticker – Appears on any electronic surface. Relays stock market data, including stock prices, net change, updates to key indices, and more. Information is provided in real time or with a slight delay.

**Trustee** – A firm which participates in debt and collective investment schemes, including unit trusts. They protect the interest of investors by monitoring and ensuring the terms of a trust deed are fulfilled.

**Unit trust** – A collective investment scheme that pools money from investors to invest in a portfolio of assets to achieve the investment objectives of the unit trust. Investments in the trust are made by buying units in the trust. The investment fund is set up under a trust deed. The price of each unit is based on the market value of the underlying assets that the unit trust has invested in. The number of units investors receive depends on the amount of their investment less any sales charge they are required to pay. Investors are effectively the beneficiaries under the trust.