

## Glossary of Terms

**Accounting:** A method of recording a company's financial activity and arranging the information in reports that make the information understandable.

**Accounts payable:** The amount a company owes to suppliers for products and services bought.

**Accounts receivable:** The amount customers owe a company for its products or services.

**American Stock Exchange (AMEX):** The third largest stock market in the U.S., with a trading floor in New York City where people trade stocks and other investments on behalf of investors.

**Ask:** The lowest quoted price sellers are currently accepting (asking) for a share of the company's stock. The Ask price is also called the Asked or Offer price.

**Asset:** Something of value that a company holds.

**Auction Market:** Buyers and sellers interacting by announcing bids and offers and thereby determining prices, usually at a physical location like a trading floor.

**Available Equity:** (Stock Market Game term) The amount of total equity remaining for buy and short-sell trades after subtracting the initial margin requirement for existing long and short positions. If available equity is zero or negative, all buy and short-sell transactions will be rejected. Here is the calculation of available equity. If the value of shorts is negative, ignore the minus sign.

$$\text{Available Equity} = \text{Total Equity} - [50\% \times (\text{value of longs} + \text{value of shorts})]$$

**Balance Sheet:** A summary of a company's assets, liabilities, and owners' equity. A balance sheet shows a company's financial condition at a given time.

**Bear Market:** A prolonged period of falling stock prices, often measured by a decline of 20 percent or more.

**Bid:** The highest quoted price buyers are currently willing to pay for a share of a company's stock.

**Blue-Chip Company:** A large, stable company with a track record of quality for consumers and profitability for investors.

**Bond:** An IOU that a company or government sells when it borrows money. Bonds are called fixed-income investments because they pay a fixed amount of interest, which is income to a bondholder.

**Bond Fund:** An investment company that pools savers' money to invest in bonds.

**Brand-name:** A name that sets apart a product or company from rival products or companies.

**Broker:** A business or person that buys or sells on behalf of a customer. Customers pay brokers a commission for this service.

**Broker's Fee:** A fee that brokers earn by completing trades for investors. A commission is usually based on the number or value of shares traded. In The Stock Market Game, teams pay a 2% commission on the *value* of all stock trades. The total of all commissions is listed in the Account Summary, and each individual commission is listed in the Transaction History. Here is the formula for calculating a commission:

$$\text{Broker's Fee} = \text{Value of Trade} \times 2\%$$

**Bull Market:** A prolonged period of rising stock prices.

**Business:** A person or group that makes something for other people to buy. Most businesses try to earn a profit. (See company, private company,

public company, proprietorship, partnership, and corporation.)

**Buying Power:** (Stock Market Game Term) The maximum value of buy and short-sell trades a portfolio can support given the initial margin requirement's limit on borrowing. Note that broker fees and interest charges reduce a team's buying power. Here is the calculation of buying power:

$$\text{Buying Power} = \text{Available Equity} \times 2$$

**Cash Balance:** (Stock Market Game Term) The amount of cash left from the initial \$100,000. Once trading begins, the cost of all stock purchases is deducted along with any interest payments and realized losses. Any interest payments or dividends received and any realized gains are added to the cash balance. If the cash balance is zero, new buy or short-sell transactions will be funded through borrowing on margin. A negative cash balance shows the amount borrowed on margin.

**Cash-like investment (Cash):** A short-term investment that can be easily and quickly exchanged for cash.

**Certificate of Deposit (CD):** A special deposit at a bank or thrift institution that pays interest on a given amount of money for a given amount of time.

**Closed-End Fund:** An investment company that issues a fixed number of shares that trade in the stock market.

**Closing Price (Close):** The last price at which a stock traded on a particular day.

**Collateral:** Property that a borrower must legally turn over to a lender if the borrower cannot repay a loan. In The Stock Market Game, the stocks a team owns are collateral when buying on margin.

**Commission:** See broker's fee.

**Common Stock:** The basic ownership of a company that usually has voting rights and owns most of the company's profit and bears most of its losses. Common stock has no guaranteed dividend.

**Company:** A person or group that makes something for other people to buy. Most companies try to earn a profit. (See business, private company, public company, proprietorship, partnership, and corporation.)

**Compound Growth:** Growth from earnings received on reinvested earnings as well as on the initial amount invested.

**Consumer Price Index (CPI):** A measure of the level of prices paid by the average American consumer. Percentage changes in the CPI measure the rate of inflation.

**Corporate Bond:** An IOU issued by a company when it borrows money for a long period of time.

**Corporation:** A company legally separate from the stockholders who own it and the managers who run it. A corporation offers these advantages: (1) Limited liability, which means that stockholders' responsibility for the company's debts is limited to their investment in its stock; (2) long life, which means a corporation continues to exist whenever its stockholders or managers change; (3) easily transferable ownership, which means that stockholders can easily sell their ownership shares in the stock market (unless a private company).

**Cost Averaging:** (Stock Market Game Term) Averaging the cost of multiple trades (buying or selling short) of the same stock. Similar trades of the same stock are combined into one line in Account Holdings and Realized Gains/Losses. Here is the calculation of available equity:

$$\text{Cost Averaging} = \frac{\text{Total Cost of Multiple Trades of Same Stock}}{\text{Total Number of Shares Traded}}$$

**Current Assets:** Things that a company owns and could sell for cash during the year.

**Current Liabilities:** The amount of a company's debts payable within a year.

**Day Order:** An order to buy or sell stock that expires at the end of the trading day.

**Delisted:** A stock that has been removed from, and is no longer traded on, the New York Stock Exchange, The NASDAQ Stock Market, or the American Stock Exchange. A stock market may delist a company if it merges with another company, files for bankruptcy, moves from one stock market to another, or fails to meet a stock market's minimum standards. The Stock Market Game will reject efforts to trade a delisted stock and will liquidate any such holdings and add the resulting gain or loss to the Gains & Losses page.

**Depreciation:** The decline in value of an asset from wear and tear over a period of time, such as one year.

**Diversification:** Reducing risk by combining different investments whose prices aren't likely to move in step with one another.

**Dividend:** Part of a company's profits (earnings) that it pays as money or shares to stockholders. In *The Stock Market Game*, any dividends received are listed in Transaction History and are included in the portfolio's total equity.

**Dividend Yield:** A company's latest annual dividend expressed as a percentage of its stock's latest price. A stock has no yield if a company pays no dividend. The dividend yield is calculated by dividing the latest annual dividend by the stock's latest price.

**Divisor:** A special number used to calculate the Dow Jones Industrial Average.

**Dow Jones Industrial Average:** The best-known measure of stock prices consisting of 30 large, well-known companies in major sectors of the U.S. economy.

**Earnings Per Share:** A company's profit or earnings divided equally among all the shares investors own. It is calculated by dividing total earnings by the number of shares outstanding.

**Earnings:** Whatever remains after subtracting a company's costs from its revenue. A company's profit.

**Entrepreneur:** Someone who starts, manages, and bears the risks of owning a business

**Equity:** For a business, equity is the value of the company's assets that belong to its owners after paying all its debts.

In a brokerage account, equity is the value of all cash and stocks owned minus any loans from the broker.

See Total Equity for a special definition used in *The Stock Market Game*.

**Exchange Traded Fund (ETF):** An investment company whose shares trade in the stock market. The fund invests in a basket of stocks (or bonds) that closely follows an index of stocks (or bonds).

**Ex-Dividend Date:** The date after which a stock's buyer will not get the right to receive a dividend the company is about to pay. So on and after this date, a buyer receives the stock "ex-dividend," which means without dividend.

**Fixed-Income Investment:** A bond, which is so named because it pays a fixed amount of interest each year, which is income to a bondholder.

**Financial Statements:** A company's balance sheet and income statement.

**Floor broker:** A person who completes customers'

orders on the floor of a stock exchange. Some floor brokers are employees of brokerage companies that are members of the exchange. Others floor brokers are independent.

**Gross Income:** A company's revenue or sales over a period of time.

**Growth Stock:** A stock that pays little or no dividends because the company is investing all of its earnings in its rapid growth.

**Holding Period:** The length of time someone holds a stock investment.

**Income Statement:** A summary of a company's revenue, expenses, and income (or loss) over a period of time, such as one year.

**Income Stock:** A stock with a record of a hefty dividend yield that often exceeds that of the overall market.

**Industry:** A group of companies producing similar products or services.

**Inflation:** An increase in the general level of prices.

**Initial Margin Requirement:** The minimum amount of equity an investor must have in a brokerage account in order to borrow for short-sell transactions or margin purchases. Failure to meet this minimum requirement prevents selling short or buying on margin. The initial margin requirement has two main purposes: (1) It limits the amount that may be borrowed to finance stock trading; and (2) it protects the broker making the loan by providing collateral to safeguard the loan. The Federal Reserve sets the initial margin requirement in the U.S. In *The Stock Market Game*, the initial margin requirement is 50% of the borrowed money. The initial margin requirement differs from the maintenance margin requirement. Here is the calculation of initial margin requirement. If the value of shorts is negative, ignore the minus sign.

$$\text{Initial Margin Requirement} = (\text{Value of Longs} + \text{Value of Shorts}) \times 0.50$$

**Initial Public Offering (IPO):** A company's first sale of stock to the public. When a company has an IPO, it "goes public" by changing from a private to a public company. In *The Stock Market Game*, IPOs will be available for trading after they have been added to the SMG system.

**Interest on Cash:** Cash is money in a bank account, so interest on cash is any payment a bank makes on this deposit. In *The Stock Market Game*,

a team receives a weekly interest payment on its average daily cash balance. Since there are 52 weeks in a year, this annual rate is divided by 52 to yield the weekly rate of interest. Here is the calculation of interest on cash.

*Interest on Cash = Average Daily Cash Balance During a Week x (Current Interest Rate Received / 52)*

**Interest on Loans:** The amount that someone pays for borrowing money. In The Stock Market Game, a team makes a weekly interest payment on its average daily balance of borrowings for margin purchases or short sales. Since there are 52 weeks in a year, this annual rate is divided by 52 to yield the weekly rate of interest. Here is the calculation of interest on loans:

*Interest on Loans = Average Daily Loan Balance During a Week x (Current Interest Rate Paid / 52)*

**Investment Bank:** An organization that helps companies sell new shares of stock, usually by underwriting the new shares.

**Investor:** Someone who buys stock or other assets to have the money grow over time.

**Large-Cap Stock:** A stock of a company whose market capitalization is large, usually \$5 billion or more.

**Last:** The most recent (last) trading price of a stock on a particular day. If the trading day is over, the last price is also the closing price.

**Liability:** A debt that a person or company owes and must repay in the future.

**Liquidity:** How easily something can be exchanged for cash. A liquid investment is one, such as a bank account, that is easily exchanged for cash.

**Limit Order:** An order to buy or sell stock at a given (or better) price.

**Liquidate:** To sell a stock or other asset to obtain cash. In The Stock Market Game, stocks are liquidated either by selling stocks owned (longs) and short covering those that have been sold short. Liquidating a portfolio in The Game requires that all open positions be closed. Ending the session does not require liquidation of portfolios.

**Long Position:** The condition of owning stocks. The value of a long position is a stock's current share price multiplied by the number of shares

owned. In The Stock Market Game, the Value of Longs shown in the Account Summary is the current value of all stocks a team owns.

**Longs:** The stocks that someone owns.

**Loss:** The amount by which a company's costs exceed its revenue. A loss penalizes a company for failing to produce what people want to buy and prices they're willing to pay.

**Maintenance Margin Requirement:** The minimum amount of equity an investor must always have in a brokerage account after borrowing money for short-sell transactions or margin purchases. The New York Stock Exchange and The NASDAQ Stock Market have a maintenance margin requirement of 25 percent, but most brokerage companies require a higher percentage of 30%. Equity must always equal at least \$2,000 in a margin account.

In The Stock Market Game, the maintenance margin requirement is 30%. If total equity falls below 30% of the current market value of stocks owned and sold short, a team will receive a margin call. The team must then sell or short cover some of its stocks to raise its equity to the required level. See Margin Call below. Here is the calculation of maintenance margin requirement. If the value of shorts is negative, ignore the minus sign.

*Maintenance Margin Requirement = (Value of Longs + Value of Shorts) X 0.30*

**Margin Account:** A brokerage account that allows an investor to borrow money or stocks from a broker.

**Margin Agreement:** A legal agreement between a customer and a broker to open a margin account.

**Margin Buying:** Using money borrowed from a broker to buy stocks.

**Margin Call:** (Also called maintenance call) A broker's request that an investor add equity to an account that no longer meets the maintenance margin requirement. For example, a drop in the market value of stocks owned (long position) can push equity below the maintenance requirement. Similarly, an increase in the value of stocks sold short can raise the maintenance requirement above the required minimum. In either case, a broker might issue a margin call, even though the broker is not required to do so.

If the margin call is not satisfied, a broker can sell some of the investor's stocks (without notification) to raise equity in the account to the mini-

mum level. In The Stock Market Game, a team receiving a margin call has three weeks to meet the 30% maintenance requirement. It can do so if the value of its stock holdings increases or if the team sells or short covers a stock. The money raised will then pay off some of margin borrowing to raise the team's equity. If the maintenance requirement is not met after three weeks, SMG will sell or short cover stocks, beginning with the lowest-priced ones, until the minimum maintenance requirement is met. Here is the calculation of maintenance margin requirement. If the value of shorts is negative, ignore the minus sign.

$$\text{Maintenance Margin Requirement} = 0.30 \times (\text{Value of Longs} + \text{Value of shorts})$$

**Market Capitalization (or Market Cap):** The total current market value of all outstanding shares of a company. Market capitalization is calculated by multiplying a stock's current price by the total number of outstanding shares.

**Market Maker:** A business that maintains bid and ask prices for a stock and stands ready to buy or sell shares at these publicly quoted prices.

**Market Order:** An order to buy or sell stock at the current market price.

**Market:** Any method enabling people to buy and sell with one another. A market does not necessarily have a physical location.

**Money Market Account:** A special savings account that pays interest and allows a saver to write a limited number of checks each month.

**Money Market Fund:** A type of mutual fund that invests in short-term IOUs of businesses and governments.

**Municipal Bond:** An IOU issued by a state, city, or local government when it borrows money.

**Mutual Fund:** An investment company that pools savers' money to invest in a variety of stocks or bonds. Most funds are actively managed by professionals who research companies and buy or sell stocks or bonds based on what they think is best for shareholders. Some funds are index funds, which closely follow particular indexes of stocks or bonds.

**Nasdaq Composite Index:** A popular measure of stock prices consisting of nearly 4,000 companies listed on The Nasdaq Stock Market. The index is a popular gauge of the performance of technology stocks.

**National Income:** The total amount of income that all individuals earn in an economy during a given time. Wages represent about two-thirds of national income. The remainder consists of profits, interest, rent, and income of unincorporated businesses.

**Net Change:** The difference between a stock's closing (or last) price on a given day and its closing price on the previous trading day.

**Net Cost/Share:** (A Stock Market Game Term) The amount spent on each share, including commission, for stocks owned (held long). If multiple trades of the same stock have occurred, the net cost per share will be an average of the net costs per share of each trade.

**Net Equity Gain:** (A Stock Market Game Term) The amount of money a team has gained or lost since the beginning of the Game. Here is the calculation of net equity:

$$\text{Net Equity Gain} = \text{Total Equity} - \$100,000$$

**Net Income Per Share:** See Earnings Per Share

**Net Income:** A company's profit after subtracting all costs and income taxes.

**Net Interest:** (A Stock Market Game Term) The amount of interest received on a cash balance minus any interest paid on a margin loan. Net Interest is listed in the Account Summary and individual interest activity is listed in Transaction History.

**New York Stock Exchange (NYSE):** A place or "floor" in New York City where people complete trades on behalf of investors throughout the world. The NYSE is the nation's oldest stock market and lists most of the "Blue Chip" companies.

**New-Issues Market:** The market in which companies sell new shares of stock to particular investors by using the services of investment banks that usually underwrite the issue.

**Odd Lot:** An order to buy or sell fewer than 100 shares of stock.

**Open:** The price of a stock on its first (opening) trade of the day.

**Outstanding Shares:** The total number of shares a company has sold to the public and are now held by investors.

**Over-The-Counter Bulletin Board (OTBB):** An electronic quotation system for many stocks that don't qualify for listing on the national markets.

**Ownership:** The legal right to benefit from using something or from selling it to others. Ownership is also called property rights.

**Parent Company:** A business that controls another company by owning most or all of its stock.

**Partnership:** A company owned and managed by two or more people who share its profits or losses. A partnership is not separate from its owners, who are liable for the company's debts.

**Percent Return:** (A Stock Market Game Term) The gain or loss in a team's portfolio since the beginning of the game expressed as a percentage of the original \$100,000. Here is the calculation of percent return:

$$\text{Percent Return} = \text{Net Equity Gain} / \$100,000$$

**Pink Sheets:** An electronic quotation system that publishes stock dealers' bid and ask prices for unlisted companies not found on any major stock market or on the Over-The-Counter Bulletin Board.

**Preferred Stock:** Shares of a company's ownership that have no voting rights but usually have a guaranteed dividend that must be paid before paying any dividend to common stockholders. If a company fails, preferred stockholders are repaid before common stockholders. Preferred stock does not share most of the company's profits (or losses).

**Price Limit:** The highest price an investor will pay for a share when buying or short covering a stock — or the lowest price an investor will accept to sell or short sell a stock. Investors often choose price limits to protect themselves against sharp movements in stock prices. In The Stock Market Game, a team may specify a price limit when entering a transaction in the Enter a Trade section.

**Price/Earnings Ratio:** A company's closing price divided by its latest annual earnings per share. If calculated with last year's earnings, it is called the trailing P/E ratio. If calculated with a forecast of next year's earnings, it is called the forward P/E ratio.

**Private Company:** A company that doesn't sell shares to the public. You can't buy shares of a private company in the stock market.

**Profit: (Earnings):** Whatever remains after subtracting a company's costs from its revenue. Profit is a company's reward for taking a risk and successfully producing what people want to buy at prices they're willing to pay.

**Proprietorship:** A company owned and run by one individual who receives its profits or bears its losses. A proprietorship is not separate from its owner, who is liable for the company debts.

**Public Company:** A company with publicly traded shares that anyone can buy in the stock market.

**Quote:** The bid or ask price quoted for a stock at a given time.

**Real Return:** An investment's return after subtracting the rate of inflation.

**Realized Gains & Losses:** The total amount gained or lost from the sale or short covering of a stock. Interest received or paid and dividends received are also included in realized gains or losses. In The Stock Market Game, any stock still held in a team's portfolio would not be listed in Realized Gains & Losses.

**Regional Stock Exchanges:** Small exchanges located outside of New York City.

**Retained Earnings:** The profit (earnings or net income) a company keeps (retains) and invests in its future growth.

**Return:** The increase in an investment's value during a year expressed as a percentage of the investment's value at the beginning of the year. For example, an investment worth \$100 at the beginning of the year and \$110 at the end of the year has increased in value by \$10, so the investment's return for the year is 10 percent ( $\$10 / \$100 = .10 = 10\%$ ).

**Revenue:** A company's sales over a period of time.

**Risk:** The likelihood of losing money.

**Round Lot:** An order to buy or sell exactly 100 shares of stock. For example, 10 round lots would equal 1,000 shares ( $10 \times 100 \text{ shares} = 1,000 \text{ shares}$ ).

**Russell 2000 Index:** A popular gauge of stock performance of smaller companies. Of the 3,000 largest U.S. companies, the smallest 2,000 represent the Russell 2000.

**S&P 500:** A popular measure of stock prices consisting of 500 large companies that represent the major sectors of the U.S. economy.

**Sales:** The amount of money a company receives by selling a product or service. Also called revenue.

**Sector:** A broad group of similar industries.

**Settlement:** The final part of a trade in which the buyer pays the seller and the seller transfers ownership of stock to the buyer.

**Short Cover:** Buying stock in order to repay a broker for the shares borrowed when the stock was sold short. A short cover closes (ends) the short position in that stock.

**Short Position:** The condition of having sold a stock short. The value of a short position is a stock's current share price multiplied by the number of shares sold short.

**Short Sale:** Sale of a stock borrowed from a broker. Short sellers believe a stock's price will drop and enable them to repay the borrowed shares with lower-priced ones. The difference in price would be the short seller's gain. If the stock's price rises, however, a short seller will lose money because the borrowed shares will be repaid with higher-priced ones.

In The Stock Market Game the money obtained from a short sale is not added directly to a team's cash balance. Instead, the value of the stock sold short is "marked to market" at the end of each day. This means the value of the stock sold short is updated to the latest price at the end of the day. If this price dropped as the short seller hoped, the gain is realized at that time and then added to the team's cash balance. If the price rises, however, the loss is subtracted from the team's cash balance.

For example, suppose a team sells short 100 shares of Droopy Inc. at \$20 per share. Here is the outcome at the end of the first week if the stock's price falls as expected:

Value of original short sale: ... 100 x \$20 = \$2,000  
Subtract value at end of  
week if Price falls to \$15 ..... 100 x \$15 = \$1,500  
Gain on short sale  
(added to cash balance) ..... \$500

What if Droopy's stock's price increased to \$25 per share? In that case, the team would have \$500 subtracted from its cash balance.

**Shorts:** The stocks that someone has sold short.

**Small-Cap Stock:** A stock of a company whose market capitalization is small, usually under \$500 million.

**Specialist:** A member company of a stock exchange that acts both as an auctioneer and a market maker (trader) to match and fill customers' orders. A specialist tries to expose any given order to all other possible orders to achieve the best possible price for a customer.

**Spread:** The difference between the current bid and ask prices for a stock at any given time.

**Stock Fund:** An investment company that pools savers' money to invest in stocks.

**Stock Index:** A statistical gauge that uses a given number of stocks to measure changes in the overall stock market.

**Stock Market:** The market in which investors trade stock with one another by using the services of brokers.

**Stock Split:** Replacing each share of stock with a larger number of lower-priced shares but keeping the total value of one's investment unchanged.

**Stock Symbol:** A grouping of one to four letters used in place of a company's full or abbreviated name.

**Stock:** A share of ownership in a business. A share of a company's profit (or loss) belongs to each owner.

**Stockholder:** An owner of stock.

**Street Name:** Registering stock in the name of a broker who keeps the stock on behalf of the investor who owns it.

**Team Portfolio:** (A Stock Market Game Term) A record of all transactions, activity, and stock positions of a team. A team's portfolio is usually updated each day.

**Total Equity:** (A Stock Market Game Term) A team's cash balance plus the value of its longs (stock holdings). For example, a team that has \$10,000 of cash and owns \$60,000 worth of stocks has a total equity of \$70,000. Teams are ranked according to the relative standing of their total equity. Here is the calculation of total equity:

$$\text{Total Equity} = \text{Cash Balance} + \text{Value of Longs}$$

**Total Return:** The annual percentage change in a stock investment resulting from dividends and changes in stock prices. The return is expressed as a percentage of the investment's value at the beginning of the year. For example, suppose 100 shares sell for \$20 at the beginning of the year and \$21 at the end of the year. The stock's beginning value would thus be \$2,000 (100 x \$20), and its ending value would be \$2,100 (100 x \$21). During the year, the company also pays a dividend of \$1 per share, which equals \$100 for all 100 shares. The total return for the year is as follows:

$$\begin{aligned}
 \text{TR} &= \frac{(\text{ending value} - \text{starting value}) + \text{dividends}}{\text{starting value}} \\
 \text{TR} &= \frac{(\$2,100 - \$2,000) + \$100}{\$2,000} \\
 \text{TR} &= \frac{\$100 + \$100}{\$2,000} \\
 \text{TR} &= \frac{\$200}{\$2,000} = .10 = 10\%
 \end{aligned}$$

**Unrealized Gains & Losses:** The difference between the initial purchase price of a stock and its current market value. The gain or loss is called unrealized because the stock has not yet been sold or short covered.

**Treasury bill:** A short-term IOU issued by the U.S. Treasury when it borrows money for one year or less.

**Treasury bond:** An IOU issued by the U.S. Treasury when it borrows money for 10 or more years.

**Treasury note:** An IOU issued by the U.S. Treasury when it borrows money for more than one year but less than 10 years.

**Underwrite:** The process in which an investment bank buys and then resells a company's new issue of stock.