GLOSSARY OF TERMS

ACCOUNTING PERIOD

The period for which the affairs of a company are being accounted for. The matching principle ensures that the incomes for the accounting period are off-set against the expenses for the same period to arrive at the profit. The balance sheet shows the asset and liability position at the end of the accounting period. Companies are required to have an annual accounting period, but this may vary if they have elected to change their financial year- end.

ACCOUNTING POLICY

For public companies, the accounting policies are set out in the first note to the accounts. They usually concern the method used to value stock and depreciate assets, the principles used in consolidating accounts, the method by which leases are charged, provisions made for deferred taxation, exchange rates used to value foreign currencies, what constitutes turnover and other items specific to the company.

ACCOUNTS PAYABLE

There are amounts owing to the company's creditors in the balance sheet. These appear under current liabilities. These amounts are owed to the company in the short term, usually as a result of sales on credit.

ACCOUNTS RECEIVABLE:

This is another term for "debtors" and appears in the balance sheet under current assets. This indicates the amount owed to the company in the short term, usually as a result of sales on credit.

ACCUMULATION:

When the volumes traded in a share start to pick up while the share price moves sideways or upwards, this is known as an accumulation phase. It indicates that the share is becoming stronger – after a period of accumulation, the supply of shares will be exceeded by the demand and this may send the share price shooting upwards rapidly.

ACCUMULATION AREA:

A period on a chart where the share is moving sideways at the bottom of a downward move. It is said that the share is being accumulated by "smart" money. See "distribution area" also.

ACQUISITION:

This is when one company "acquires more than 50% of the shares of another. The company acquiring the shares then becomes the "holding company and the acquired company becomes a "subsidiary".

ACTUARIES INDICIES:

The JSE actuaries indices are carefully calculated weighted averages of all the market sectors and the market as a whole. They are published daily on the page opposite the price page in the Business Day (top left-hand corner) and can be used to determine the performance of an entire sector. It is important to understand that only the more important shares in each sector are taken into account in each index. Very thinly traded shares, or shares, which have small market capitalisations, are not included.

ADR:

American Depository Receipt, which is a mechanism through which foreign shares are traded in the USA. Shares are registered into a nominee's name. The issues transferable ADR's in respect of the underlying holding. Foreign-owned companies are required to list on the US stock market through ADR's. They trade in the same way as any other listed share, and dozens of South African companies now have ADR listings in the US.

ADVANCE/DECLINE RATIO:

This is a refinement of the Net advance/decline line calculated by dividing the difference between the total number of shares up and the total number of shares down, by the total number of active shares on that day.

AFTER-TAX PROFIT:

The profit of the company after taxation has been deducted. This figure is shown in the income statement and is used for calculating the return on shareholders' funds.

AGENT:

When a stockbroker acts on behalf of a client and has no personal interest in the order.

ALL-GOLD INDEX:

A weighted average of all gold shares traded on the JSE

ALL-OR-NOTHING:

The full order must be executed immediately, or, if it is not possible to do so, the order must be routed to special term's order book.

ALLOCATION:

The number of shares actually sold to a person who has applied to participate in a new issue. If the issue is over-subscribed, the applicant may only get a small proportion of his total application. The balance of his money is refunded.

ALSI 40 INDEX:

The JSE/Actuaries All Share 40 Top Companies Index (ALSI 40 Index) is an equity index intended to reflect the performance of the South African ordinary share market as a whole. A relatively small proportion of the total number of securities listed on the JSE are incorporated into the index on the basis that movements in the share prices of those Constituent Companies can be said to represent the movement of the market as a whole. Companies selected for inclusion in the ALSI 40 Index are generally larger companies of sound financial standing having widely traded and marketable shares.

ANNUAL GENERAL MEETING:

This is a meeting of the shareholders of a company, which is required by the Companies' Act. The AGM must be held within 6 months of the end of the company's financial year. At least 21 days notice of these meetings must be given to shareholders. At the meeting, the directors present the company's financial statements amongst other things. Shareholders vote at these meetings according to the number of voting shares, which they hold.

ANNUAL FINANCIAL STATEMENTS:

Sometimes known as an Annual Report, this is a document required by the Companies Act to be produced once a year for presentation to the Annual General Meeting. These statements must consist of a balance sheet, income statement, directors' report and auditor" report in terms of section 286. These must be prepared in accordance with Generally Accepted accounting practices, and fairly present the state of the company and its profit or loss for the year. The detail is set out in Schedule 4 of the Companies act.

ANNUALISE:

The process of adjusting performance or return which has been made over a period of less than or more than a year so that it can be compared with the annual results of other entities. For example, if a certain share gives a return of 25% over a period of six months this would be annualised to 50%

ARBITRAGE:

Simultaneous trading in assets, currency or bills of exchange in different international markets, to take advantage of the different rates ruling in each.

ARTICLES OF ASSOCIATION:

A document, drawn up by the subscribers of a company at its inception, which governs the internal affairs and management of the company. The articles deal with the nature of the company's shares, the transfer of shares, holding of meetings, powers and qualifications of the Directors etc. The articles must be lodged, together with the "memorandum", at the Registrar of Companies in Windhoek before the company can commence business. An example of the format of the articles is given in table A of Schedule 1 of the Companies Act.

ASK PRICE:

The price at which a seller is prepared to part with his shares.

ASSET:

An item on the balance sheet that indicates the possessions of a company, an organisation or an individual. Assets can be tangible (e.g. a vehicle), or intangible (e.g. goodwill). They can be fixed (e.g. land, buildings, vehicles, office furniture) or current (e.g. stock, debtors, cash). A fixed asset is one which is expected to last for a period of years, and which cannot easily be exchanged for cash, while a current asset is temporarily owned by the company and has a high liquidity.

ASSET BASE:

Money raised by a company as a result of issuing shares to the public is protected by the Companies Act from being distributed in the form of dividends. The general rule is that companies may only pay dividends out of profits, and not out of the money that was put into the company to set it up. There are exceptions to this rule. You can get a good idea of the asset base of a company by adding its share capital to its non-distributable reserves.

ASSET BACKING:

A strong asset backing indicates that a company has large resources of assets. These may reside in a parent company, or they may belong to the company itself.

ASSET MANAGEMENT:

The management of the listed assets (equities, options, etc.)

ASSET STRIPPING:

This occurs where a company is purchased because the market price of its shares is less than the value of its assets. Assets are then sold and a profit is realised.

AT BEST:

An instruction given to a stockbroker by his clients to sell or buy "at best" would give the broker freedom to purchase or sell the shares concerned at the price most advantageous to his client and as soon as possible.

ATTRIBUTABLE PROFIT:

Profits after extraordinary items, taxation, preference dividends, and outside shareholders' interest which are attributable to the company's ordinary shareholders. These profits are not usually distributed in total, as a portion will be retained in the company to finance future growth.

AT MARKET:

An order to be transacted immediately against the best opposite order in the book at the time of making such entry.

ATS:

Automated Trading system (see JET).

AUDITORS' REPORT:

A part of the annual financial statements where the auditors state that they have examined the statements and that in their opinion they represent a fair picture of the company's financial activities over the period in question. Occasionally, the auditors' report is qualified because they did not approve some aspect of the accounts or accounting controls. You should always glance at this report to see if the statements have been qualified.

AUTHORISED CAPITAL:

The number of shares in each class, which a company is authorised to issued to the public or in exchange for assets. The authorised capital must be stated in the Memorandum of Association, but may be increased or reduced. Once the shares have been purchased by the public or swapped for assets, they are known as issued capital.

AVERAGE COST:

A method of valuing shares at the average of what they cost. For example, if 100 shares are bought for 100 cents each and then a further 100 of the same shares are bought for 150 cents each, then the average cost would be 125 cents per share.

BACK OFFICE:

The department in a stockbroking firm, which deals with settlement procedures, such as forwarding share certificates to clients and the maintenance of accounts.

BAD DEBTS:

This is a debt, which cannot be recovered – thus forcing the company to write it off against profits. Most companies make provision for bad debts, a figure which is adjusted annually. When the economy is in recession, such provisions will tend to be higher, especially among banks. A provision for bad debts is a current liability.

BALANCE OF PAYMENTS:

The combined net position on the capital and current accounts of the country. The current account indicates whether Namibia is spending more foreign currency on imports than it is receiving from its exports, while the capital account shows how much money foreigners are investing in Namibia.

BALANCE OF TRADE:

This forms part of the balance of payments calculation, but refers only to the difference between the value of exports offset against imports. While balance of trade will reflect the level of physical imports relative to exports, the balance of payments reflects non-physical flows such as capital and dividends to and from abroad, debt repayment and receipts, interest payments and receipts (the so-called invisible items).

BALANCE – SHEET:

A list of all balances taken from a company's ledger after incomes and expenses have been offset to arrive at a profit or loss. These balances are combined in carefully prescribed ways. The objective of the balance sheet is to give a snapshot of the company at a precise moment in time. This shows where the company obtained its money (liabilities) and how it has allocated that money (assets) so as to generate profits. Obviously, the sources of money must be totally accounted for in assets of one sort or another and therefore the "two sides" of the balance sheet must always balance.

BDA SYSTEM:

Broker deal accounting service provided for member firms by the JSE information technology division. The system keeps the scrip records and books of account for individual member firms in respect of their clients.

BEAR:

An investor, who believes that the market or a particular share is going to decline from its current position.

BEAR MARKET:

Describes a situation where the majority of shares are dropping and the market is declining generally.

BEAR RAID:

Where investors who have sold short (made bear sales) attempt to force the price of a share down by making further bear sales so that they can cover their positions profitably at lower prices.

BEAR SALE:

A sale of shares before they are purchased. In reality, a bear sale (or short sale) is the sale of an UNDERTAKING to supply a certain number of shares at a specified date in the future. Bear selling was originated by the Eskimos who used to sell polar bear skins to European traders. Like all markets, the demand for polar bear skins varied, depending on whether they were fashionable or not. The Eskimos, realising this, took the opportunity when demand for skins was high to sell not only their current stock of skins, but also their next hunting trip's skins. They actually sold the skins of polar bears that they had not hunted to take advantage of the higher prices. If the demand (and therefore the price) dropped by the time of their next visit to the trading post they would have made a wise decision. The term was adopted by share markets to describe a situation where someone who feels strongly that the price of a share is about to fall can take advantage of this by selling the shares at current prices for delivery in a few months time when he can buy them much more cheaply. Bear sales on the JSE must be done at a price, which is higher than that of the last transaction in that share. Only about 1% of deals on the JSE are bear because of the high risks involved – if the shares go up instead of down then theoretically there is no limit to the extent of your loss.

BEAR TREND:

A long downward trend in a share's price, a sector's index, the all-market index or other indicator.

BID PRICE:

The price offered by a buyer for a share.

BID/OFFER SPREAD:

This is the difference between the prices at which market makers will buy and sell shares. For example, the market maker may offer to sell FNB at N$12 and bid (to buy) the same share at N$11. A spread is the difference between the bid and offer prices, i.e N$12 – N$11= N$1. If the spread is attractive enough (i.e. bid and offer prices are not too far apart) it may succeed in trading millions of shares over the course of a month, providing a healthy source of income for the business. For smaller companies the percentage difference between the bid and the offer price will be greater than for larger companies.

BLACK CHIP:

Black empowered company.

BLOCK

A large amount of stock sold as a single unit. This term is most often used to describe a unit of 1000 shares or more.

BLUE-CHIP:

A very safe share that has a history of sound management and steady dividends. Examples of such shares are Sasol, S.A. Breweries, First National Bank, Pick ‘n Pay, and Anglo-American. Investors buy these shares for security rather than quick capital gains.

BONUS ISSUE:

A term synonymous with scrip issue and capitalisation issue, which describes shares given without charge to existing shareholders in proportion to the shares already, held.

BOOK VALUE:

This is the value at which an asset appears in the books, or accounts, of a company. Very often, book values are higher or lower than the real values of the assets, and can be misleading when considering the balance sheet. A good example of this is where a company buys land and records it in its books at cost. Over the years, the land becomes much more valuable, but no adjustment is made to the book value.

BOOM:

This describes a stage in the business cycle when economic activity is increasing.

BORROWINGS:

This is a term used by share market analysts to refer to a company’s long-term indebtedness. It excludes those current liabilities, but which arise as the result of normal business practice.

BOTTOM:

The lowest point in a share’s price cycle.

BOURSE:

A European term, for a stock market. For example, the Paris Bourse, or the Frankfurt Bourse.

BREAK-EVEN:

A term used by accountants to indicate that a company has reached the point where it is not making a loss or a profit.

BREAK-OUT:

A technical term which indicates that a share price has moved clearly up or down after a period of relative indecisiveness or stagnation. A breakout is often a buy/sell signal, especially in Point and Figure charting.

BRIDGING FINANCE:

This is a loan obtained by a company to tide it over a short temporary cash flow problem.

BROKER’S NOTE:

A contract document sent to the buyer or seller of shares by his stockbroker to act as confirmation of the transaction. It shows the name of the client, the share or stock in question, the dealing price, handling charges, brokerage and the net proceeds of a sale, or amount owing for a purchase.

BROKERAGE:

The stockbroker’s fee for completing a share transaction. Brokerage is calculated on a sliding scale depending on the total value of the transaction. The highest brokerage is 1.1% paid on the first N$10 000 of any transaction. Amounts over N$5 million are charged 0.385%.

BULL:

An investor who believes that market trends are rising.

BULL TREND:

A long period of consistently rising share prices, or index levels. Usually such trends last from 2 to 4 years.

BULLION:

Any precious metal (most commonly gold) which has not been processed into jewellery, coins, or used for any other manufacture. It is normally kept in bars known as ingots.

BUSINESS CYCLE:

The overall upward – peak – downward – trough pattern that is followed by business activity. There are a number of theories about the causes of these cycles, but no real explanation for this. The share market tends to anticipate major changes in the direction of the cycle by about 6 months. The cycle normally lasts about 3 to 5 years.

BUYER’S PRICE:

The price at which someone is prepared to buy the shares at a certain time. On the price page of your daily newspaper, this is shown at the close of the session reported on, usually under the heading “buy”. It means that at the close of trade there was someone prepared to buy the shares at the price shown – but no seller was found.

BUYING PRESSURE:

A high demand for a particular share or class of shares which exceeds the supply and so causes the price to rise.

CALL OPTIONS:

Right to purchase (call) specified shares within a specified time (option period) at a specified price (strike price). By the payment of a premium per share, the investor buys the right to demand a delivery of the shares at any time during the currency of the contract, at the ruling price when the call was purchased. This is useful when a sharp rise is anticipated, as the only immediate capital required is the call money, thus gearing the investment.

CAPEX:

An abbreviation for capital expenditure. It is often used when referring to gold mines. It refers to expenditure, which is of a capital nature – in other words used to purchase some sort of fixed asset.

CAPITAL:

Money which is used to supply “working” capital or to purchase capital goods, which are to be used to generate the income of the company. Capital can also include the reserves of undistributed profit retained by the company. Share capital refers to the money raised as a result of the sale of company shares. Working capital is used to buy stock and finance debtors.

CAPITAL GAIN / APPRECIATION:

When a gain is made when an investment is sold for more than its purchase price, it is called a capital gain. A dividend is an income gain, or the natural return on an investment. Capital appreciation occurs when shares or other investments are at a higher market price than they were purchased. Until the shares are sold, no capital gain has been realised.

CAPITAL STRUCTURE:

This is the way in which a company has raised the capital needed to establish and expand its business activities or, more specifically, the number of shares and long-term loans in each class that have been authorised and issued.

CAPITALISING LOANS / INTEREST:

This is the process when loans or interest payable are converted to capital. This alters the gearing or borrowing ratio of the company by shifting loans into permanent capital. It also improves the operating performance of company's. Whereas a loan usually carries obligatory interest charges (although many inter-company loans are interest-free) which must be deducted from operating income to arrive at net income (shareholders are only paid dividends if there is sufficient net income). Banks will often capitalise loans outstanding from a borrower in trouble by converting the loan into capital but only if they perceive that the chances of recovering the money would be improved by allowing the company to continue operating without the burden of monthly interest repayments and when company liquidation is unlikely to result in full recovery of the outstanding amount. In this way, they hope to recover the original loan through dividend payments or by selling their equity once the company is functioning well.

CAPITALISATION ISSUE:

Also called 'bonus issues", these do not involve transfer of cash between the company and its members. They occur when a company feels it desirable to convert part of its reserves (profits from earlier years, which have not been paid out as dividends) into new shares. This often arises when the number of shares in issue is small in relation to the total value of the business. This makes them too scarce or highly priced to be easily traded. From a member's (shareholder's) point of view, the effect is to give him a greater number of shares than he already has. As the company itself has not grown any larger or smaller in the process, the percentage of his holding has remained unchanged, his stake therefore consists of more shares, each representing less of the company.

CARTEL:

A group of companies that together have a sufficiently large share of a particular product or industry say that they can force prices up by not competing with each other. An agreement is reached not to compete on price and what is effectively a monopoly is established. For example, The Organisation of Petroleum Counties (O.P.E.C.) has been controlling prices in the oil industry from 1973.

CASH COMPANIES:

This is a new sector, introduced in 1995, to accommodate cash shells. These are companies with cash or near-cash as their only assets. When a company becomes a cash shell (i.e. all the assets are sold off or transferred out, leaving only cash in the company), it is transferred to the Cash Companies sector for a period of six - months, during which time it must acquire viable assets and comply with the initial listing requirements of the JSE. The shares remain listed and can be traded during this six month period, but if at the end of this period the company has not acquired any viable assets, the share is suspended for a further three months. After this period, if it is still not compliant, its listing is terminated.

CASH ASSET / SHELL:

A company which has cash or near-cash as its only asset. Besides the income derived from investing this cash, these companies have no-income-producing assets and are not conducting normal business in any industry. They are often the subject of take-over bids by companies wishing to obtain a listing. Take-overs like these are often accompanied by considerable insider trading (which is illegal, but quite common). This shows in the volume of shares traded before the take-over is announced to the general public. These high volumes are a good indicator of an impending take-over, but sometimes reflect a wild rumour in the market.

CASH FLOW:

This is the amount of cash coming into a company less the amount going out. Cash flow is important because a profitable company can easily go bankrupt if its profits are tied up in stock or debtors, leaving it with insufficient money to pay its creditors by the due date. Cash flow can be improved by reducing the "working capital" of the company.

CAUTIONARY ANNOUNCEMENT:

This is a publicly advertised announcement made by a listed company to urge shareholders to exercise caution when trading in its shares. These announcements are advertised in the Business Day (and other leading papers) whenever a company is involved in any activity (such as negotiating a take-over) which would materially affect the price of the shares. The idea is to avoid any insider trading which might result from the leakage of the information and to make sure that all the interested parties receive the information as quickly as possible.

CHAIRMAN' REPORT:

The chairman of the board of directors of a company is appointed by the shareholders. His position is in no way different from the other directors unless he is given a special mandate in the company's articles. Often this position is merged with that of the Managing Director. Normally the articles provide that he should preside at general meetings and give him a casting vote at such meetings.

CHAIRMAN'S REPORT:

Unlike the Directors' Report this is not a legal requirement, but has become customary, especially for the listed companies. The report is often published in the daily press or in some cases an abridged version is included in the McGregor's Quick Reference. Normally, it contains the policy of the company and its strategy for the coming year. This often includes a picture or projection of what is expected in terms of growth in the year ahead. It is interesting to look through the past projections of a particular chairman to see how accurate they have been. This will give you quite a good measure of his understanding of his company and industry.

CHINESE WALL:

A communications barrier between members or departments of a financial institution to prevent the transfer of price sensitive information. Chinese walls are imaginary but are taken seriously in an attempt to minimise conflicts of interest.

CLEARING SYSTEM:

Computerised clearing system on the NSX, which confirms deals between member firms on a daily basis and prepares weekly statements for the purpose of settling these deals.

CLOSE OF TRADE:

When the share market stops trading at the end of each trading day. For the NSX this is at 4pm during winter and 5pm in summer.

CLOSING DAY OF OFFER:

Last day on which an offer made by a company to its shareholders may be accepted (e.g. in the case of a rights offer or an offer to purchase a shareholder's shares in a take-over bid).

CLOSING PRICE:

This is the price at which the last transaction of a particular share took place during the trading session being reported on.

COMMODITY:

Basically these are raw materials such as gold, silver, soya beans, sugar, coffee, steel etc. Many commodities are traded in markets around the world. The gold price is set in these markets, so they affect any supplier of gold such as South Africa.

COMMON STOCK:

A term used in America to describe their equivalent of ordinary shares.

COMMODITY CYCLE:

Commodity prices tend to move in cycles lasting several years. For example, the aluminium price bottomed at $1.100 a ton in late 1993 and peaked at $2.000 a ton in early 1995, before declining slowly, Commodity cycles are dictated by world demand and global economic growth rates. They are critical in evaluating the earnings potential of commodity-based companies, such as Gencor, listed on the JSE.

CONDITIONAL OFFER:

An offer made to the shareholders of a company conditional to the occurrence of some event. Typically, where a take-over bid is being made, the predator will make an offer to shareholders conditional to its being accepted by more than 50% of the shareholders.

CONGLOMERATE:

These are massive, sometimes multinational, holding companies involved in a wide variety of industries.

CONSUMER GOODS:

Anything which is normally bought by consumers as the end user. This differs from industrial goods, which are bought with the objective of producing some other product or service.

CONTROLLING SHAREHOLDER:

A shareholder who owns more than 50% of a company's voting share capital and can therefore control the company's activities.

CONVERTIBLE SECURITIES:

These are shares, debentures or other securities which are convertible either voluntarily or compulsorily into ordinary shares at some future specified date. Most commonly, preference shares are convertible. This gives their owners a higher degree of security than buying ordinary shares because they can wait to see the progress of the company before deciding whether or not to give up their preferential dividend for the less secure but potentially more profitable ordinary dividend.

CORPORATE FINANCE TRANSACTION:

A transaction set out in writing and requiring public notification in the press in terms of the listing requirements of the NSX. It may also be an 'asset swap', which complies with all the requirements of the Namibian Reserve Bank in respect of 'asset swaps'.

CORNER:

This is when a share which has been short-sold falls into the hands of a few investors who are unwilling to sell and who thus cause a bear squeeze. Also where one or a group of investors gain control of the supply of a product or commodity; and can influence the price in the industry.

CORRECTION:

This term is used quite loosely to mean any short-term change in the direction in which a share or market is moving. More strictly, it refers to a temporary downward move in a bullish or upward trend.

CREDITORS:

This is an item on the balance sheet, which is subtracted from the assets side as part of current liabilities. Creditors (more often called accounts payable) are all people and organisations to which the company owes money which must be paid within normal commercial periods of 30, 60 or 90 days. This is different from its long-term liabilities, which appear on the liabilities side or the balance sheet.

CROSSED MARKET:

Where a quote's bid price is higher than the offer price for a security.

CUM DIV:

Shares are said to be "cum div" in the period between declaration of the dividend and the last day to register for the dividend. A sale of shares while they are "cum div" passes on the right to the next dividend to the transferee (or buyer).

CUMULATIVE PREFERENCE SHARE:

A preference share accumulates its dividend in the event of the preferential dividend being passed for one or more years. Preferential dividends are paid out before ordinary dividends, but sometimes, when the company makes a loss or too small a profit to meet the preferential dividend fully, then if the "prefs" are cumulative they will pay out any backlog before ordinary shareholders receive another dividend. This puts these shareholders in a more secure position than normal preferential shareholders.

CURRENCY BACKING:

A hard asset, usually gold, that is used to back a national currency. Originally when paper money was first used, these were certificates certifying a deposit of gold at what were to become banks. In other words it was fully backed by gold. Gradually all countries in the world have abandoned fully gold backing of their currencies and moved to partial backing in one form or another.

CURRENT ASSET:

An item on a balance sheet which includes any assets which can easily be turned into cash (have a high liquidity) and which will only be held for a short time. Most commonly, these are stock, debtors and bank and cash balances. Pre-payments of expenses may also be included.

CURRENT LIABILITY:

Any liability that must be paid within a year from the balance sheet date. These are mainly amounts owed by the company, which must be repaid within the normal commercial periods (30, 60 or 90 days). Typically, on the balance sheet you would find accounts payable (or creditors), overdrafts and provisions. Once a dividend has been declared, but before it is paid, becomes a current liability.

CURRENT RATIO:

The ratio of current assets to current liabilities. The objective of this ratio is to determine whether the company can meet its short-term obligations out of its short-term assets (as these have the highest liquidity). If a company's current assets are less than its current liabilities then it is probably has cash flow difficulties.

CYCLES:

Shares, industries and markets move in cycles. There are three types of cycles: primary, secondary and daily fluctuations. Primary trends last from 2 to 5 years, secondary trends from 2 to 6 months and so-called daily fluctuations from 1 to 10 days. If you observe the movement of a share you will probably be able to see certain definite cycles, especially if you draw a graph. You can take advantages of these cycles to fine-tune your buy and sell decisions.

DAY'S MOVE:

The extent to which a share moves during the course of the trading day on the Stock Exchange. You will find the day's move quoted as a separate column in the better newspapers, both in cents and as a percentage. In essence this shows the difference between one day's closing price and the next.

DEBENTURE:

This is a form of long-term loan. A company issues debentures, usually at N$100 each, at a fixed percentage return. Debentures are then redeemable at a certain specified date, but in some cases may be convertible into ordinary shares. Debentures are not part of the equity of the company. Dividends on redeemable “prefs” need not be paid if the company is not profitable.

DEBT/EQUITY RATIO

The ratio of shareholders’ equity in the company (share capital and reserves) to company borrowing of the company. The company has two primary sources of capital: – shareholders equity (consisting of the money raised when the shares they hold were issued, plus any profits which have not been distributed as dividends); and money obtained in the form of loans from banks and other lending institutions. The Debt/Equity ratio shows who owns what in the business. For example if shareholders had only N$1 for every N$1.50 of the bank’s then the company would be “highly geared” and in danger of going beyond its credit worthiness. This means that the bank would effectively control the company by being able to close it down by simply calling in its loan.

DECLARATION DATE:

The date on which the board of directors declare the company dividends.

DEFLATION:

The opposite of inflation. A period where the purchasing power of money increases in terms of a basket of goods and services.

DEPRECIATION:

The process of charging the value of an asset against the company’s profits at the same rate at which it is expected to wear out or become obsolete. It would not be reasonable to charge the full value of a motor vehicle against the profits of one year when the vehicle is expected to last for 5 years. Therefore a system of changing 20% of the purchase price per annum could be employed (this is called the straight-line method of depreciation). Depreciation is sometimes applied on a “reducing balance method” where the percentage is charged against the balance remaining after the depreciation of previous periods. For example if an asset cost N$10 000 and was to be depreciated at 20% (of this amount)
N$10 000, but the second year would be 20% of the remaining tax value of the asset
(N$8 000) and so on. Different assets may be depreciated at different rates using the straight-line method for tax purposes. Depreciation also helps to build up cash in the business to replace the asset when it is worn out.

DEVELOPMENT CAPITAL MARKET:

A primary share market designed to give an opportunity to small, rapidly-growing businesses to list. The listing requirements are less stringent than those of the Main Board.
Requirements are as follows:
- At least N$500 000 of share capital and reserves
- 100 000 shares
- Pre-tax profit of N$500 000.
- A minimum trading period of 2 years and
- 10% of the shares must be issued to the public

DIRECTOR’S REPORT:

Section 299 of the Companies Act requires companies to put before the Annual General Meeting (AGM) a Directors’ report with respect to the state of affairs, the business and profitability of the company. The report has to deal with anything, which materially affects the profitability and business of the company, and it must contain AT LEAST the information required by Schedule 4 of the Companies Act.

DISCRETIONARY ACCOUNT:

An account opened with a stockbroker where the stockbroker may make transactions on the client’s behalf without consulting him. The opposite is a non-discretionary account.

DISTRIBUTABLE RESERVES:

An item on the balance sheet, which appears on the Capital Employed (or liabilities) side. These are reserves, which may be distributed to shareholders in the form of dividends because they have been built up out of the profits of the company.

DIVERSIFICATION:

The process whereby a company (or individual) spreads its investments among a number of different enterprises so as to reduce its exposure through one of them. Research conducted in America has shown that diversification of a portfolio reduces risk until approximately 15 different shares are held. Thereafter, the reduction in risk is immaterial while the effort of following additional shares remains the same. This is the reason why students are advised to hold between 5 and 15 shares.

DIVIDEND COVER:

The number of times the dividend could be taken out of the earnings. For example, if a company has earnings (profits) of N$50 000 and pays out a dividend of N$5 000 then the dividend cover is 10 times, if a dividend of N$20 000 is paid then the dividend is covered only 2.5 times.

DIVIDEND EQUALISATION RESERVE:

A distributable reserve, which is specifically set up to ensure that dividends remain stable despite changes in earnings. If a company normally pays a dividend of 10 cents per share, the directors might establish a dividend equalisation reserve so that this dividend level is protected against unprofitable years.

DIVIDEND YIELD:

Dividends per share expressed as a percentage of the current market price. For example, if a company pays a dividend of N$10 000 and it has 10 000 ordinary shares in issue (sold to the public) then the dividend per share will be 100 cents. If the current market price is 2 000 cents per share, then the dividend yield will be 5%. This shows that if you bought the share at its current price, and it continued to pay the same dividend you would receive a 5% return per annum.

DIVIDENDS PER SHARE:

A company's ordinary dividend divided by the number of ordinary shares in issue, usually expressed as a number of cents per share.

DOW JONES INDEX:

Various indices are compiled daily of the prices of securities on the New York Stock Exchange. The Industrial Average measures changes in the unweighted arithmetical average of thirty leading industrial shares. There are similar indices for Utilities, Transportation, composite and Bond Averages.

DUAL CAPACITY TRADING:

Dual capacity trading was introduced following the deregulation of the JSE in 1995 and 1996. It means that a stockbroker may act as a principal and as an agent in share dealing activities. In terms of the new rules, a broker must disclose to a client who wishes to buy or sell shares whether he is acting as a principal or agent i.e., is he purchasing shares for the client for his own account or selling the client shares from the firm's own stock. The broker must disclose whether he is acting as a principal or agent in the deal to prevent conflict of interests. Until 1995, stockbrokers were limited to acting as agents connecting buyers and sellers on the market. This is known as a single capacity trading.

EARNINGS:

Share market terminology for a company's after-tax profit.

EARNINGS PER SHARE:

A company's earnings (profit) divided by the number of ordinary shares, usually expressed as a number of cents per share.

EARNINGS YIELD:

Earnings per share expressed as a percentage of the current market price of the share. For example, a company with 25 cents earnings per share and a market price of 250 cents would have an earnings yield of 10%.

ELECTRONIC SETTLEMENT:

Settlement of transactions on the bond market is done through settlement agents. As the bonds are deposited into the CD, the scrip is dematerialised and settlement, the transfer of the stock from the seller to the buyer, takes place electronically

ENTREPRENEUR:

This is a "go-getter" who runs a business, and shares in the risks and profits.

EQUITY:

That portion of share capital which carries risk, and shares in profits through dividends that are dependent on profitability. Ordinary shares are often called equity shares, and other types of shares, which carry less risk as convertible or participating preference shares are known as "near-equity". Equity is the share capital and reserves of the company – which is the same as its net assets (net of liabilities). You should be careful because in many instances, the book value of assets such as stock and real estate is very different from the market value.

EX DIV:

A share is "ex div" once the last day to register has passed. Any sales after the last day to register are done on the basis that the dividend accrues to the buyer, even if it has not yet been actually paid out.

EXPOSURE:

The degree to which a portfolio or other investment is susceptible to risk from certain factors. For example, a share in a company whose main business is importing would be highly "exposed" to the Rand/Dollar exchange rate.

FILL OR KILL:

(FK) means the full order must be executed immediately or otherwise cancelled.

FIFO:

The "First in First Out" method of valuing stocks. The assumption is made that the oldest stock is sold first when valuing what remains at the end of the accounting period.

FINAL DIVIDEND:

The dividend paid when the directors know what the final profit for the year will be. Added to the interim dividend, this gives the total dividend for the year.

FINANCIAL TIMES INDUSTRIAL INDEX:

A share price index calculated hourly during business hours from an unweighted average of thirty leading chips dealt in on the London Stock Exchange. Until recently this index was the best known barometer for the stock market but this has now been superseded by the Financial Times Share E 100 Share Index.

FIXED ASSET:

An asset which is expected to last and be useful for a number of years, and which cannot be easily turned into cash (i.e. has a poor liquidity). Such assets are depreciated over their expected lives. Examples are vehicles, land and buildings, furniture and fittings, office equipment etc.

FIXED INCOME:

These are investments, which give a set return, such as preference shares, bonds, debentures and savings accounts.

FOREIGN RESERVES:

A reserve of precious metals and foreign currencies kept by the Reserve Bank.

FREE-DEALING:

A term used to describe listed shares, which trade in large volumes regularly and can be bought or sold freely on the Securities Exchange. You should be careful of shares which are "tightly held" because you may have trouble finding a seller, and in particular you should not short-sell them as you will have difficult covering your position.

GEARING:

The relationship of a company's borrowings to ordinary shareholders' funds. A company can obtain the finance it needs to conduct its operations from two sources: by issuing of its ordinary shares and by borrowing from third parties. The ratio of the one to the other determines the company's gearing. This ratio is also sometimes called the debt/equity ratio. We say that a company is "highly geared" if the borrowings from external sources exceed the shareholders' capital by an excessive amount.

GENERAL OFFER:

An offer made to all shareholders of a company for the purchase of their shares. The purchase price could be in cash or in shares of a predator company or a combination of both.

GOING PUBLIC:

A term used to describe the sale of shares of a privately-held company to the public for the first time.

GREEN CHIP:

Environmentally friendly companies.

GROUP:

The holding company of a number of subsidiaries. Such companies produce Group Consolidated Accounts once per annum showing the consolidated position and performance of all the subsidiaries.

GROWTH STOCK:

An American term which refers to a share whose revenues and profits are in a phase of expansion over the long term, and whose earning peaks are still believed to be a long way in the future.

HEDGE AGAINST INFLATION:

Any tangible or hard asset which can be used to protect the investor against a depreciation in the value of paper currencies. Gold and other precious metals are typically the most popular hedges against inflation and this causes these metals to be closely related to the level of world inflation – the higher the rate of inflation, the higher the gold price. A word of caution – this does not refer to inflation in S.A., but rather to inflation in America and the western world generally.

HEDGE:

Action taken by a buyer or seller to protect his business or assets against a change in prices.

HOLDING COMPANY:

Any company, which owns more than 50% of the voting capital of another company, or can be, said to have effective control over the appointment of its directors.

IMMEDIATE DEAL:

Delivery of the shares and payment for them must be made before the end of the current settlement period.

INCOME:

In accounting terms, this refers to all revenues received by a company, both as a result of its sales and other sources such as interest, dividends or rent.

INDEX:

A weighted or unweighted average of the prices of a group of shares. There are many types of "indexes" (indices) for sectors, sub-sectors and entire markets. There are also a number of ways to weight the data, but essentially the idea is to allow for the fact that the market capitalisation of shares differs widely within the same sector. This is partly because each company has a different number of shares in issue. Over and above this, shares leave the sector, and new ones join it. The calculation of indices is the work of actuaries and this explains the term JSE "Actuaries" Indices. Indices are useful for determining the general direction of a sector and perhaps comparing individual shares with the group average. Sectors may also be compared, and a careful study of index trends will allow you to move your money around the market from one profitable sector to another. It is useful to keep records of all the sector indices (there are about 40) on a weekly basis, taking the data from your Sunday paper and working out a 10-week moving average. Securities may be linked to indices. SATS introduced an index-linked bond called ELFI, which is linked to various indices.

INDUSTRY:

A group of companies engaged in similar operations shares are grouped into industries called sectors in your daily paper.

INSIDER TRADING:

The illegal dealing in shares by people who, because of their privileged position, have information, which materially impacts on the value of the shares, before that information has been made public. This type of dealing is extremely difficult to control and is a constant feature of most share markets, especially where special situations such as take-overs are about to occur. The only protection is to keep a careful watch on the volume traded, because massive volumes are an indication that someone knows something that you don't.

INSTITUTIONAL INVESTOR:

An organisation (as opposed to an individual), that invests funds arising from deposits, premiums etc. Examples are insurance companies, mutual funds and investment trusts.

INTANGIBLE ASSETS:

Any asset which is not concrete. For example, goodwill or patents, which belong to the company, are not represented by any physical object, but refer to the company's rights to something or the reputation that the company has in its industry and market. These are very often not reflected in the accounts.

INTEREST RATE:

The price of money. Money behaves in much the same way as a commodity, in the sense that when it is in short supply, it becomes more expensive and vice versa. The interest rate is the cost of borrowing it and the reward for lending money. There are a variety of different interest rates, which apply to different types of money. For example, the prime overdraft rate is the rate at which the banks' most creditworthy clients borrow on overdraft: the bankers' acceptance rate, or BA. rate, is the rate at which the banks discount short-term paper over say 90 days and so on. The size of the money supply is a primary determinant of the interest rate, and also the point in the business cycle. A fall in interest rates is normally seen as an indication of a pending upswing in the economy.

INTERIM DIVIDEND:

A dividend paid out by the company when the directors have received the interim (half year) financial results. The final dividend is paid when the final profits are shown in the final accounts.

INTRINSIC VALUE:

The perceived value of a natural object, e.g. a precious metal, regardless of its actual price at any given time. In economics, value is determined by demand and supply and is denoted by price.

INVENTORY:

Another word for stocks of raw material, work in progress, consumable stores and finished goods. The valuation of inventory is critical to the balance sheet.

INVESTMENT:

An asset on the balance sheet that refers to the shares held in a company or loans granted to other companies, which do not amount to a controlling interest. The Act requires these to be split into listed and unlisted investments, and this is usually done in the notes.

INVESTMENT HOLDING COMPANY:

A Company which holds other companies as subsidiary or associate companies.

JSE TRUSTEES (PTY) LTD:

A company formed by the JSE to safeguard the surplus funds belonging to a client and held by a broker who is operating a managed account on behalf of the client.

JSE MONTHLY BULLETIN:

An extremely useful document, the Bulletin gives details of the month's trading on the JSE of all the listed securities, including preference shares and other listed instruments. Of particular importance is the section at the back, which gives details of rights issues capitalisation issues, share splits, consolidations and other major changes in share capital.

JSE RULES AND DIRECTIVES:

Rules, sets of rules and directives established by the JSE to govern all the workings of the exchange in terms of the Stock Exchanges Control Act (SECA),

JUDICIAL MANAGEMENT:

Where a company is wound up for financial reasons, it is sometimes the case that it could have been saved had it been managed well. Judicial management was introduced to assist this type of company to overcome a temporary setback without going out of business. A judicial management order usually gives the company a moratorium on its debts. Essentially, the court replaces the directors. A provisional judicial manager is appointed, to assume control until the final judicial manager can be appointed. Application for judicial management may be made by the company itself, a creditor or a member. If the judicial manager cannot return the company to solvency, then he may recommend to the court that it be wound up.

LAST DAY TO REGISTER:

A date by which securities must be lodged with the company's office in order to qualify for dividends and rights.

LAST TRANSACTION PRICE:

The price at which a certain share was last traded. This information is normally reported on the price page of your newspaper in a column headed "last". It is sometimes called the "closing" or "ruling" price. Normally, papers report on the position at the end of the morning or afternoon session.

LEADING INDICATORS:

These are indicators, which tend to anticipate movements in other indicators. For example, the paper and packaging industry tends to start experiencing better conditions before the rest of the economy because almost all products have to be packaged before they can be sold.

LEGAL PERSONA:

This is a legal term that refers to the fact that in addition to natural persons, companies are considered by law to be persons independently of their owners or managers. Legal persona gives companies the two essential features that they need to attract capital from the investing public – separation of the ownership from the management of the company and limited liability, which ensures that shareholders (unlike partnerships and sole traders) are only liable to the value of their shares

LIABILITY:

An accounting term, which records monies, owed by the company to outsiders. The most common forms of liabilities are share capital and reserves (which are money "owed" to the shareholders), long-term loans such as debentures, and short-term loans (normally called creditors). These amounts are added to the liabilities side of the balance sheet or subtracted from the assets side. They are credit balances in the ledger, and essentially they show the source of the company's finance.

LIMIT ORDER:

An order, which may only be effected at prices equal to or better than the price on the order.

LIQUID ASSETS:

Assets that can be readily converted into cash. Normally, these are current assets such as debtors, stock and obviously cash or bank balances. The "liquidity" of an asset is the speed and ease with which it can be turned into cash.

LIQUIDATION:

The Process whereby a company is dissolved. The court, the company itself, a shareholder, the Master of the court, the judicial manager, a creditor, or the minister may initiate such dissolution. A liquidator is appointed, who arranges to sell off all the assets of the company and uses the proceeds to pay its creditors (firstly the secured creditors and then the unsecured ones). Once the creditors have been paid then the preferential shareholders are paid, and then finally the ordinary shareholders.

LIQUIDITY:

The ability of a company (or person) to raise cash on short notice, usually with a view to meeting debts, unexpected expenses, or to take advantage of opportunities. It is wise to keep a portion of your wealth in cash so that you will be able to take advantage of unforeseen opportunities (or meet unforeseen expenses) without being forced to sell shares at a time, which may not be advantageous. Excessive liquidity usually means that the company or individual is overly conservative and is not reaping the full benefit of investment opportunities.

LIQUID OR ILLIQUID SECURITIES:

Selected securities so designated from time to time by the JSE's Committee for the purpose of tick sizes and bear sales.

LISTING:

The right to trade a particular security on the exchange. The NSX has stringent requirements for companies seeking to have their shares and other instruments listed. Securities may be listed in the industrial, or mining or financial sectors etc or on the Development Capital Board.

LONGTERM LIABILITY:

A debt, which is to be, repaid over years rather than months. A good example of this would be debentures, which carry a fixed percentage return and are redeemable by the company at some future date. Long-term Liabilities are found on the liabilities side of the balance sheet immediately below share capital and reserves.

LOCAL COUNTER-PARTY TRANSACTION:

A transaction where a member firm trades as a principal with a person, other than a member firm in South Africa.

LOT SIZE (LOT)

This is the standard unit of trade in all equities;

- one round lot (100) in Kruger Rands:
- one coin;
- in debentures:
- R100 nominal value.
- When you want to buy or sell shares there is no need to transfer funds.
- When your savings consist of shares, they immediately begin to earn interest at a competitive call rate.

MANAGEMENT BUY-OUT:

The acquisition of all or part of the share capital of a company by its directors and senior executives. The management is usually assisted by loans from an institution.

MARGINAL PRODUCER:

A term usually applied to gold-mining companies with a very high cost of extraction and therefore a low margin. If their cost of extraction is close to the gold price, then very small fluctuations in the gold price can easily double or halve their profitability. This is reflected directly in their share price, which tends to fluctuate widely for relatively small changes in the gold price.

MARK TO MARKET:

Calculation of the difference between the contract price and the market price.

MARKET APPRECIATION:

The difference between what was paid for a share and its current market price. This is distinct from the realised profit, which can only occur if the share is actually sold and the money is in the bank.

MARKET BREADTH:

The extent or scope of change in stock prices. Market breadth is most often measured by analysing the number of stocks that advanced or declined during the period or by counting the number of shares in issue by their current market price.

MARKET ORDER:

An order given to a broker with no price limitation. The broker is instructed to obtain or sell a specific number of shares “at best” - as opposed to a limit order, where the instruction is only valid above or below a pre-determined price. In practice, the broker will usually inform you if the price has changed dramatically, and give you a chance to reconsider.

MARKETABLE SECURITIES TAX (MST):

A tax which is levied by the JSE on all purchases of shares and other securities.

MERGER:

(Also called an amalgamation.) This occurs where two or more companies come under the control of one, whose shareholders then become the shareholders of the companies that were merged. Sometimes one of the two merged companies is used as a vehicle for the merger, and sometimes a totally new company is formed for this purpose. A merger is seen as distinct from a “take-over” or an “absorption”.

MINORITY INTEREST:

A shareholding of less than 50% of the total issued share capital of a company. Companies work on the principle of majority rule – decisions are made by the majority of votes in the company. Because ordinary shares usually have one vote each (although there are sometimes voting and non-voting ordinaries), this means that whoever controls at least 50% of the shares controls the activities of the company. The Companies Act goes to considerable lengths to protect minority shareholders from any unlawful actions of the majority – or any actions, which are not in the interest of the company as a whole. Any such action could constitute what is called a “fraud on the minority”. When looking at the consolidated accounts of a company it is common to see a minority interest shown. This means that the holding company has subsidiaries, which holds less that 100% of the share capital. The holding company is obliged by law to consolidate the whole of the subsidiary into its accounts, and therefore must itemise that portion which belongs to minority (or “outside”) shareholders.

MONETARY POLICY:

Monetary policy is the control of the economy by changes in the money supply, as a result of changes in the level of interest rates, and the percentage of money that banks are required to lodge with the Reserve Bank. This is as opposed to fiscal policy, which involves the level of government spending and taxation.

MONEY MARKET:

The money market does not take place at a central place; it is really a communications network which allows banks, money brokers, businesses, discount houses, the government and the Reserve Bank to deal with one another and arrange short-term lines of credit with one another. Money brokers and discount houses conduct the market in a full time capacity, and in fact constitute the market.

MONEY SUPPLY:

The total amount of money in the country. There are various methods for measuring the money supply, itemised under “M1, M2 and M3”.

MONOPOLY:

The situation where one business controls enough of the supply of a product or service to be able to force the price up by being the only supplier. A good example of this is De Beers, which has a virtual monopoly in the diamond market. Monopolies are discouraged in most western capitalist countries because they tend to lead to artificially high prices and inferior products. In the USA anti-trust legislation attempts to prevent monopolistic mergers and take-overs.

MORNING FIX:

A fixing of the gold price in London at a fixing session. This is done by five leading bullion houses, by matching supply and demand to equalise at a certain price. There is also an afternoon fix.

MOVING AVERAGE:

The most commonly used technical indicator in the world, this is often used in conjunction with other indicators. To calculate a moving average on a data stream (such as a series of daily share prices), it is necessary first to decide on its period. The shorter the period the more sensitive the signals.

NEW ISSUE:

A listing of a new security or an issue of more shares in an already listed security.

NET CURRENT ASSETS:

A balance sheet item showing the difference between current assets and current liabilities. In most healthy companies, this difference will be positive, so that the company is always able to meet its short-term creditors from its short-term assets.

NET OPERATING INCOME:

The profit of the company before the appropriations detailed in the income statement. Most income statements begin with a statement of the company's turnover, which is not arithmetically related to the rest of the income statement. The next figure is net operating income from which the interest paid, extraordinary items, taxation, transfer to reserves preference and ordinary dividends are subtracted to arrive at the retained income for the year.

NET INCOME:

(Also referred to as NET PROFIT or NET EARNINGS.) The earnings of an organisation after deducting taxation and all other expenses. This is obviously an important measure of a company's performance, but you should remember to allow for the inflation rate when comparing one year's net income with another's.

NET WORTH:

The value of the assets of a company less the value of its liabilities. It is common to hear investors saying "a particular share is trading at 20% below net worth". What they mean is that if the company were to sell all its assets and pay off all its liabilities, the balance would be 20% more than its current market capitalisation. This then makes the share good value at the current share price.

NEWS LETTER:

An announcement made by a company, either voluntarily or to comply with legal requirements, to inform the public of some material development which will impact on shareholders. Typically, rights issues, capitalisation issues, consolidations, pre-listing statements, interim and final dividends, annual financial statements and many other announcements are made through the press. You should study these carefully because they often offer good opportunities for profit.

NIL PAID LETTERS:

A security which is temporarily listed on the stock exchange and which represents the right to take up the shares of a certain company at a certain price and on a certain date. Nil paid letters are the result of a rights issue to the existing shareholders (or debenture holders) of a company. A rights issue is one way of raising additional capital by offering existing shareholders the opportunity to take up more shares in the company - usually at a price well below the market price of the shares. These rights are represented by the "nil paid letter" and are renounceable – this means that they may be bought and sold on the stock exchange. You will see them from time to time on your price page. For example, Randex npl or Gencor npl. They are normally very volatile because they fluctuate according to how close the market price is to the "take-up" price.

NOMINAL OR PAR VALUE:

Value given to shares when they are created. This has nothing to do with the true value of the shares and need bear no relationship to the market price.

NOMINEE:

A person or company nominated to perform some function on behalf of a principal. In the share market, the nominee typically owns shares on behalf of the principal, and usually the nominee is a private company – and this makes it difficult to discover who actually owns the shares.

NON-DISTRIBUTABLE RESERVE:

That portion of accumulated shareholders' equity, which may not be distributed in the form of dividends. The Companies Act is at considerable pains to maintain the share capital (or asset base) of a company and to prevent minority shareholders from being defrauded by the majority. Because of this, the shareholders' equity is clearly divided into two main areas – contributed (or paid-in) equity and accumulated equity.

NOTES TO THE ACCOUNTS:

These form part of the annual financial statements of a company. They supply more information on the figures contained in the financial accounts, according to the requirements of the Companies Act. It is very important to consider these notes carefully before buying the shares of the company. They often contain important information, which the company has preferred to show as a note rather than in the balance sheet, income statement or flow of funds statements. For example, any change in accounting policies is contained in the first note, and these can be very important to the final profit or loss picture. Other items which are covered are a breakdown of investments into listed and unlisted, directors emoluments, a breakdown of fixed assets, auditors' fees, details of borrowings and so on.

ODD LOTS:

Share certificates or transactions in stocks and shares in quantities other than round hundreds.

OPEN ORDER:

An order still pending or on the books to buy or sell security, but not yet executed. An open order will remain in effect until it is either executed or cancelled or for a period of two weeks, at which point it lapses. If orders are required to remain open for more than two weeks, they can be placed "GTC" (good till cancelled).

OPTIONS:

Purchased options giving the right of conversion into shares at a fixed price and by a specified date. Options are negotiable on the JSE.

ORDER:

A commitment to buy or sell a specified quantity of a security at a set price (limit), or at best, subject to certain terms.

ORDINARY SHARE CAPITAL:

Capital of a company represented by the number of its ordinary shares.

ORDINARY SHARES:

Also sometimes called "equity" shares, these are fixed shares, which share in the profits and risks of the company. Unlike the fixed dividend paid to preference shareholders, the ordinary dividend is decided by the directors, and is dependent on the company's profits. If the company is liquidated, the ordinary shareholders share out the proceeds after the creditors and preferential shareholders have been paid out. For these reasons, ordinary share prices tend to be far more volatile than preference shares, giving opportunities for capital gains. Most of the shares published in the newspaper are ordinary shares.

OVER-PRICED:

This describes a share, which has a market price in excess of its "real value – in the opinion of the person who uses the term. The real value of a share is always a matter of opinion, and at any one time some investors will regard a share as over-priced – while others will consider it to be under-priced – and if the opinion of pessimists carries more weight than that of the optimists, the market price will fall and vice versa. At any point in time, the market price represents the algebraic average of all investors' opinions relating to the share's real value, while technical analysis is the search for that real value, while technical analysis is the study of investors' opinions concerning the real value – as reflected in the share's price pattern.

OVER-REACTION:

A situation, which arises after news concerning a share, is disseminated, and investors push the price to levels, which are beyond reasonable discounting of the news - ie. they over-react. Such situations can give good profit opportunities to the astute and level-headed investor.

OTC:

Over-the-counter market – a market which is normally not licensed or an informal market for the trading of securities. There is therefore no formal settlement through a clearing house nor is risk formally managed.

OVER-SUBSCRIPTION:

This occurs where the applications for a new issue of shares exceed the number of shares available for issue. This often happens because the shares are offered to the public at a price below their inherent value and people obtaining the shares can make an immediate "stagging" profit when the shares are listed.

PAPER PROFITS:

The difference between the purchase price of a share and its current market price. Another term for this is "market appreciation". There is a potential danger in this figure, because it may not be possible to sell the shares at their market price.

PAR VALUE:

The price for which a share was first sold to the public. Normally, the market price quickly exceeds the par value as the company grows and makes profits. The objective of the par value is to enable the "asset base" of the company to be clearly established at its inception so that no illegal erosion of that base can take place.

PARTICIPATING PREFERENCE SHARES:

Preference shares which participate in the profits beyond a fixed percentage. For example, they might receive an additional 2% if the ordinary dividend is above 8%, or, over and above their normal fixed percentage they might receive 10% of the ordinary dividend.

PENNY STOCK:

Shares, which trade for low prices per share. They may be shares of a very good company, however, they are usually not. They are attractive to private investors who do not have enough capital to purchase more expensive shares.

POLITICAL RISK:

Risk which is political, rather than economic, financial or managerial. This kind of risk is very difficult to determine and can cause tremendous fluctuations in the market. It is not usually a feature of the more stable western countries, but has become an increasingly important factor in South Africa.

PORTFOLIO MANAGER:

This is someone who manages portfolios on behalf of investors. He makes the investment decisions and is not usually obliged to get his clients' permission to change their investments. He is paid a fee plus a percentage of any profit he makes, and is not liable for any losses sustained by his clients.

PORTFOLIO STRUCTURE:

The percentage breakdown of a portfolio over the various market sectors.

PRE-LISTING STATEMENT:

A public press announcement required by the JSE before the listing of a company, which is not accompanied by a new issue of shares and therefore a prospectus. It is felt that the investing public needs the same type of information that is usually contained in a prospectus before they buy shares on the JSE.

PREFERENCE SHARE:

Shares which have preferential rights in relation to another class of share in the same company. These rights consist of:

- The right to receive dividends before ordinary shareholders
- The right to receive a dividend which is a fixed percentage of the nominal or par value of the shares
- The right to a preferential repayment of capital in the event of the liquidation of the company.

"Prefs" are generally uninteresting to any but the most conservative investor because their prices tend to remained more or less static, in line with their fixed dividends.

PREMIUM:

A general term used to describe the difference between the price at which a share was first issued and the current price.
Often, a successful company wants to issue additional shares to raise the capital for expansion. The price of these new shares will reflect the growth of the company since its incorporation and so they will be sold for more than the selling price of shares of the same class when the company was first formed. The additional amount is a share premium, and is shown separately in a share premium account.

PRICE: EARNINGS RATIO:

The market price of a share divided by its earnings per share. This gives the reciprocal or the earnings yield, and is used by some investors to compare shares.

PRICE RANGE:

The difference between the highest and lowest prices at which a particular share has traded over a certain time period – such as one trading day, or one year. The range is a good indication of the volatility of the share.

PRIMARY MARKET:

The market for shares when they are first sold by a company to raise capital. New issues and rights issues are examples of activity on the primary market. Once the company has sold the shares, they enter the secondary market and are sold and bought by members of the public without in any way changing the capital structure of the company.

PROSPECTUS:

This is a requirement of Companies Act for every offer of shares to the public. It must be lodged with the Registrar of Companies, and must conform to Schedule 3 of the Companies Act. The purpose of the prospectus is to ensure that members of the public wishing to purchase the shares on offer are aware of certain key information concerning the company and its directors.

PROVISION:

An item on the balance sheet that falls under liabilities. A provision is "raised" when the company has an expense for which it has not yet received an invoice and therefore does not know the amount. The provision is an estimate, which is charged against profits because the expense was incurred in the accounting period, which is being reported.

PROXY:

A document, which entitles one person to attend shareholders' meetings, speak and vote on behalf of another person who is a shareholder of the company.

PUBLIC COMPANY:

A company as defined by the Companies Act which may issue shares to the public, has no restrictions concerning the number of shareholders, or the transfer of shares from one person to another. Public Companies may have their shares listed, but do not necessarily list. Public companies must have at least 7 shareholders, but there is no upper limit. They are also required to lodge their annual financial statements with the Registrar of Companies.

RALLY:

A temporary upturn in the price of a share or index or other data stream which occurs during an overall bear trend. The opposite of a correction.

RATIO:

The relationship between two figures from the financial statements designed to show the profitability or effectiveness of the management within a company. Ratios have no absolute significance, and are only relevant for comparisons over the history of the company or between companies in the same sector.

REALISED PROFIT:

A profit which is actually in the bank, as opposed to a market appreciation. If you buy shares for R10 and they rise to R12 then you have a market appreciation of R2. Only if you then sell them at R12 will you have a realised profit of R2 less your dealing costs.

RECESSION:

A cyclical period of lower economic activity, occurring at regular intervals. As opposed to a depression which is a period of major economic downturn with high unemployment and declining gross national product.

REDEEMABLE:

This refers to preference shares or debentures, which are paid out by the company at a certain future date. The only real difference between redeemable "prefs" and redeemable debentures is that the debentures are units of loan capital and receive interest, while the prefs are share capital and receive dividends – which may not be paid if the company is not making a profit.

REDEMPTION DATE:

The date on which redeemable preference shares or debentures will be redeemed by the company. These are really forms of long-term indebtedness, which clearly have to be paid back on pre-determined dates.

REMAINING LIFE:

An estimate of how long a mine will be able to extract gold profitably (or other minerals), given the lease area and the expected grade. Clearly an assumption has to be made about the future gold price in Rands. It can be roughly calculated by dividing the tonnage of mineable ore by the average annual rate at which it is extracted. As mining technology becomes more sophisticated and new, cheaper methods of mining are found, the remaining life of mines can be extended.

RESERVE:

A figure from the liabilities side of the balance sheet, which is money ploughed back into the business out of profits, arising from a revaluation of assets, or money set aside for the redemption of debentures or other long-term loans. Reserves can be either distributable or non-distributable in the form of dividends. The general rule is that a company may only distribute profits, and not its capital base. Reserves arising from profits are normally distributable, as opposed to reserves arising from, e.g., a revaluation of land.

RETAINED INCOME:

The entire after-tax profit of a company that is not distributed to shareholders as a dividend i.e. the portion that is usually kept in the business to finance future growth or to act as a reserve against less profitable years. This is known as retained income and appears in both the income statement and the balance sheet.

RETURN:

The return on an investment consists of any dividend, interest, rent or other income added to the increase in the value of the asset over a set period, usually expressed as an annualised percentage of the original investment. For example, if you bought shares for 1000 cents, received a dividend of 25 cents and then sold them 6 months after the date of purchase for 1175 cents, then your return consists of 25 cents dividend, plus 175 of capital growth, which is 20% of your original investment of 1000 cents. This is 40% on an annualised basis.

RETURN ON CAPITAL EMPLOYED:

A ratio used to measure pre-tax profitability. It may be calculated as pre-tax profit plus interest paid, divided by total shareholders' funds.

RIGHTS ISSUE:

An offer of additional shares to existing shareholders, usually at a discount to the current market price. When a company wishes to raise additional capital, one of the ways it can do so is by offering more shares to its existing shareholders. Normally the right to buy these shares is represented by "Nil Paid Letters" which entitle their holder to buy the shares at a price usually below the market price. Some of the existing shareholders may not wish to take up their rights and so are willing to sell their NPL's. For this reason the NPL's are often listed for a short period (until the date when the shares must be taken up) on the stock exchange.

RISK:

The probability that a share price will go down rather than up. All investments have an element of risk which is harder to quantify than their return, and therefore very often left to "gut feel". Generally, the rule is that the more risky an investment, the higher its potential return. To understand this, it is necessary to consider what you are actually doing when you buy a share or other investment. Essentially you are in the business of forecasting. You are saying that you are buying the particular share because you believe that its price will go up. Now ask yourself what is the easiest price graph to predict - obviously a straight line! But if the share's price stays at the same place indefinitely, it may be easy to predict, the share price, the more difficult it is to predict and therefore the more risky it becomes – but its volatility also makes possible much higher profits. So, in the share market, volatility, predictability and risk are really the same thing.

SATISFACTION RULE:

Generally, a rule, which ensures that orders in the public order book are honoured when special types of trades take place, especially market maker trades.

SCRIP:

The physical share certificates(s)

SECURITIES:

Stocks, shares or bonds.

SELLER'S PRICE:

Price at which dealer is prepared to sell shares on the market.

SELLING SHORT (BEAR SALES):

Selling shares you do not possess in the expectation of being able to buy them at a lower price before they are due for delivery.

SETTLEMENT PERIOD:

A numbered week in which member firms must settle their scrip accounts with the JSE clearing house. Brokers' notes to clients carry the number of the settlement period in which the client must settle the deal. (The weeks are numbered from 1 to 52, starting in January).

SHARE TRANSACTIONS TOTALLY ELECTRONIC (STRATE):

An electronic settlement system for the South African equities market.

SHARES:

These represent part-ownership of a company.

SECONDARY MARKET:

The market is made up of share transactions, which do not involve the company that issued the shares concerned. The primary market is where companies sell their shares to the public to raise capital.

SECONDARY SHARE:

A share of a company, which is well-managed and has good markets, but does not have the financial muscle or history of profits of the blue chips. These are sometimes referred to as "growth" stocks, because they have the potential to become blue chips at some future stage. You should expect a secondary share to double its market price within the next 2 to 3 years, and for this reason they form an important middle area in your portfolio between blue chips and speculative shares.

SECTOR:

A grouping of all shares in the same industry, usually represented by a sector index.

SECURITIES:

Any type of marketable investment paper, whether bonds, shares, prefs, debentures or other. The term is much broader than "share", encompassing all types of investments, which can be readily bought or sold.

SELLER'S PRICE:

The price at which someone is prepared to sell a share. At the end of the day's trade, there is often a seller who was not able to find a buyer for his shares at the price he wants, so that his price remains in the seller's column until the next trading day. The seller's price is reported in some papers (Business Day) as it stood at the close of trade on the previous day.

SENTIMENT:

The mood of the market. The way that investors as a group perceive a share, sector or the market as a whole – are they bullish or bearish?

SETTLEMENT DATE:

The date by which you must settle your account with your broker for the purchase or sale of shares. When you buy you must pay your broker within seven days, and when you sell you must supply your broker with a signed transfer form and the share certificates within seven days. This is one of the most strictly enforced laws in this country.

SHARE CAPITAL:

A figure on the balance sheet representing the amount of money raised by the company through the issue of shares to the public.

STAG:

Person who applies for shares in a new company with the intention of selling them immediately when dealing commences (hopefully at a profit).

STOCK EXCHANGE CONTROL ACT:

A statute regulating the establishment and operation of stock exchanges in South Africa. The Act also governs the trading of listed securities, and the constraints on the broking profession. Copies of the Act are available from the NSX.

STOP LOSS:

A simple share trading strategy designed to cut losses and allow profits to ride. When a share is bought, a note is made of the floor price, which is, say 10% below the purchase price. If the price were to decline or go through the floor price, the share would be sold. If however the expected rise in price occurs, the floor rises correspondingly, always remaining at 10% below the current price. At some stage, the price will turn around and go through the floor – resulting in a sale. At this point, a ceiling is calculated at say, 7% above the sale price. If the share price goes on going down, the ceiling goes down too. As soon as the share price cuts up through the ceiling, it is bought, and a new floor price is established

SUB DIVISION:

Also known as a share split, a sub division involves an increase in the number of shares held by each member, with a proportionate reduction in their value so that there is no change in the total value of the shareholding. This is done by breaking each share down into smaller pieces. The effect is to bring the shares within the smaller investors. This normally results in a greater demand for the shares.

SUSPENDED SHARE:

A share that the Committee has suspended from trading for a period of the time. Usually, this occurs where some material event is about to occur which will drastically effect the share price. Until this information is made public, trading is suspended to prevent insiders from buying or selling the shares illegally.

SYNERGY:

This is a fashionable word to denote gains made in addition to the sum total of the parts when two business concerns are jointed. The basis of the concept is the experience that in some mergers the net advantages that accrue to one firm need not come at the expense of the other: both parties may gain.

SYSTEMIC RISK:

The risk that the entire share market will fall, taking all shares with it irrespective of their inherent quality or value.

TAKE-UP PRICE:

The price at which shares subject to a rights issue must be bought. Normally this price is below the market value of the shares, so that the rights themselves have a value. If the rights are not taken up then they fall away and cease to exist.

TAKE-OVER:

The situation where one company makes an offer for some or all of the shares of another company. The offer to existing shareholders is usually pitched at a price well above the existing market price, to persuade shareholders to accept the offer. Many investors select companies that may be ripe for a take-over (some classic indications: the company's market price is well below its net asset value. It has recently cut or passed its dividend, and it has a large assessed tax loss that could be used by another company) and then wait. For example, the value of Wispeco shares was 20c in 1978. In November 1979 Metkor made a take-over offer pitched at 70c per share, which was 16c above the latest market price before the offer was announced.

TAKING A VIEW:

This phrase has two meanings. Firstly, it can refer to an investor taking a bullish or bearish view of the market depending on whether he believes market trends will rise or fall -usually this would be reflected in his transaction. Secondly, it can refer to the length of time that one intends to keep a share – shares can be bought with a short, medium or long-term view.

TECHNICAL ANALYSIS:

The analysis of group investor behaviour, as reflected in the patterns of share prices and volumes, indices, exchange rates and other indicators. More commonly known as charting, this consists of carefully examining the share price, and drawing graphs to establish patterns, which can then be used to give buy and sell signals.

TICK SIZE:

A short horizontal stroke on a bar graph showing the price at which the share closed. The specified parameter or its multiple by which the price of a selected security may vary when trading at a different price from the last price, whether the movement is up or down from the last price.

TIGHTLY HELD:

Shares which are difficult to obtain because the owners are reluctant to part with them. These shares are easy to spot because they have little or no volume traded. Generally, it is not a good idea to deal in such shares.

TIME SERIES:

A term used to describe a list of numerical data accumulated at regular periodic intervals. The daily or weekly closing price of share is a time series.

TIME VALUE DECAY:

A term, which describes the fact that the time value of an option diminishes as the option approaches the expiry date. Time value decay follows a negative exponential curve, which is to say that it is very gradual at first, but builds up momentum until it declines very sharply in the last few days.

TIP SHEET:

A new newsletter, which concentrates on giving its readers hot tips which share to buy and sell and when to transact. Such letters should be followed with caution, and their advice used only in conjunction with your own research.

TOP:

The highest point on a share price or other graph over a defined period.

TRADEABILITY:

The ease with which a share can be traded. Some shares are free-dealing and highly tradable, others are tightly held.

TRADING ASSETS:

Usually taken as the company's debtors and stock – in other words, the assets, which are normally tied up in the direct running of the business.

TRADING SESSION:

There are two trading sessions each trading day on the JSE: one in the morning from 9:30 a.m. until 1:00 p.m. and the other from 2 until 4 p.m.

TREASURY BILLS:

Instruments for short term borrowing employed by governments. The bills are issued by tender to the money market.

TREND LINE:

A line joining the high points on a bear trend and the low points on a bull trend. When the price breaks through the trend line this gives a trading signal. This is probably the simplest, but by no means the least effective technical analysis indicator.

TURNOVER:

The first stated figure in the income statement, turnover consists of the company's total sales or income figure.

UNDERWRITING:

An agreement to buy all the units of a new issue not sold by a specific day. Banks typically underwrite new share issues, thus assuring the issuing company that all shares will be taken up.

UNIT TRUST:

A trust consisting of a management company and a trustee company (usually a bank) which invests unit-holders funds in the share and capital markets for a fee. The public is invited to buy units in order to obtain capital growth and dividend income. Unit trusts are basically a method for lay-people to pass on the management of their money to a management company employing expert analysts. Investors can invest much smaller sums of money in a unit trust that is usually practical when buying shares directly through a broker. Different unit trusts have different biases in their portfolios, which can greatly affect their overall performance.

UNLISTED INVESTMENT:

A balance sheet item, normally shown by way of a note, and indicating share investments held by the company in unlisted companies which may be private or public.

UPSIDE POTENTIAL:

A term used to describe a transaction made at a price higher than the preceding transaction price. Also called a plus tick.

VOLATILITY:

The degree to which a share deviates from its average. High volatility is associated with risk, both fundamental and technical. For example, shares in marginal gold mines are extremely volatile, moving 10% or more in a single day, because their operations are only just profitable or unprofitable so that their performance is highly geared to the gold price.

VOLUME:

The number of shares changing hands during the trading day. In America, this figure is calculated by adding shares bought to shares sold – in other words, it is effectively double the volume traded, as it would be shown on the J.S.E. In London the volume traded is not disclosed, so that the various indicators which rely on volume cannot be used. You should keep a careful lookout for exceptional volumes on a share, because they can give a clue about insider trading and special situations.

WIDOW'S AND ORPHAN'S FUND:

An institutional term referring to a fund which is dominated by the need to generate income rather than rapid capital growth.

WORKING CAPITAL:

The money which is tied up in the workings of the company. Usually calculated by adding the company's debtors, stock and cash balances, and subtracting its creditors and other current liabilities. Most companies try to keep their working capital to a minimum because it ties up money which could be used for other activities and which incurs interest.