

Stock Market Glossary

AMERICAN DEPOSITORY RECEIPTS (ADRS): A system whereby a foreign stock certificate is registered in the name of a United States bank or trust company and held by them. The U.S. entity then issues receipts against the shares and these are traded as ADRs.

ARBITRAGE: The purchase of a security on one stock exchange and, at the same time, the sale of the same security on another exchange. The difference in the bid and ask prices on the different exchanges yield a profit to the investor, or arbitrageur.

AVERAGES AND INDICES: Averages and indices determine the state of the stock market or the economy. The figures are based on the performance of stocks or other significant components. Some examples are the Dow Jones Industrial Average (an average of 30 blue chip stocks), the TSE 300 Composite Index, The Montreal Exchange Portfolio Index and the Consumer Price Index.

AVERAGING DOWN: An investment technique whereby the investor buys more of a security at a lower price than the original investment price in order to hopefully reduce the average cost per share or unit.

BEAR MARKET: A market that is declining.

BEST EFFORTS UNDERWRITING: The underwriter (brokerage house) agrees to use its best efforts to sell a new issue of securities. The underwriter does not guarantee the issuing company that any or all of the issue will be sold. The underwriter is also the agent for the issuer and distributes the issued securities to its clients.

BID AND ASK QUOTATIONS: The bid is the highest price a potential buyer is willing to pay for a security. The ask is the lowest price the seller will accept. Taken together, the bid and ask are called a quotation or quote.

BLUE SKY: A colloquialism for Canadian and U.S. laws that have been enacted to protect the public from securities fraud. A new issue that has been 'blue skied' has been cleared by a Securities Commission and qualifies for distribution.

BOARD LOT: A regular trading unit of a security that has been decided upon by stock exchanges. (See also Odd Lot.)

BOUGHT DEAL: A new issue of stocks or bonds bought from the issuer by an investment dealer, frequently acting alone, for resale to its clients, usually by way of a private placement or short form prospectus. The dealer risks his own capital in the bought deal. In the event that the price has to be lowered to sell out the issue, the dealer absorbs the loss.

BULL MARKET: A market that is rising.

CAPITALIZATION OR CAPITAL STRUCTURE: The total dollar amount of all debt, preferred and common stock, contributed surplus and retained earnings of a company.

CASH FLOW: A company's net income for a stated period, plus any deductions not paid out in actual cash, such as depreciation and amortization, deferred income taxes, and minority interest.

CLASS A AND B STOCK: Class A stock is often similar to a participating preferred share with a prior claim over Class B for a stated amount of dividends or assets or both, but without voting rights; the Class B usually has voting rights but no priority as to dividends or assets. Note that these distinctions do not always apply.

CONVERTIBLE: A bond, debenture or preferred share that may be exchanged by the owner of the security, usually for the common stock of the same company. This is done according to the terms of conversation. A company can force conversion of its convertible securities by calling in such shares for redemption if the redemption price is below the market price.

CROSS ON THE BOARD: A cross is also known as a 'put-through' or 'contra' order. When a broker has both an order to buy and an order to sell the same stock at the same price, a cross is completed without interfering with the current market activity.

CUMULATIVE PREFERRED: A preferred stock that has a provision that if one or more of its dividends are not paid, the unpaid dividends accumulate and must be paid before any dividends may be paid on the corporation's common shares.

DAY ORDER: An order to buy or sell a security that is valid only for the day the order is made.

DEBENTURE: A certificate of indebtedness of a government or company. A debenture is backed by the general credit of the issuer and unsecured by mortgage or lien on assets.

DISCRETIONARY ACCOUNT: An account with a broker where the client has given specific written authorization for someone such as a partner, director or qualified portfolio manager to select securities and execute trades on his or her behalf.

EARNINGS PER SHARE: The part of net income for a time (quarterly, yearly, etc.) period attributable to one common share of a company. e.g., \$0.10 per share.

ESCROWED OR POOLED SHARES: Outstanding shares of a company which, while eligible to vote and receive dividends, cannot be bought or sold unless special approval is obtained. This technique is frequently used by resource companies when treasury shares are issued for new resource properties. Shares can be released from escrow, that is, freed to be bought and sold) only with the permission of regulatory authorities such as a stock exchange and/or securities commission.

FIRM BID – FIRM OFFER: An undertaking to buy (firm bid) or sell (firm offer) a specified number of securities for a particular price for a specific length of time.

FLOW-THROUGH SHARES: A special type of shares that offer tax deductions and credits, normally available only to a corporation that may flow through to owners of the company's flow-through shares. Canadian exploration and mining companies often use flow through shares to finance exploration.

GTC ORDER: Good till cancelled order. The same as an open order. An order to buy or sell a security until it is filled or cancelled.

INSIDER REPORT: A report of the transactions (buying and selling) in the shares of a company by those considered to be insiders of the company. Insiders must submit their transactions each month to securities commissions.

ISSUER BID: An offer by a company (issuer) to security holders to buy back any of its own shares or other securities convertible into its shares.

MARGIN: An amount of money paid by an investor when he uses credit to buy a security. The balance of the cost of buying the security is loaned by the broker against acceptable investor collateral.

MARKET ORDER: An order placed to buy or sell a security forthwith at the best current price.

NET ASSET VALUE: The assets of a company less its liabilities. Net asset value is also known as shareholders' equity.

NET EARNINGS: That part of a company's profits remaining after all expenses and taxes have been paid and out of which dividends may be paid.

NO PAR VALUE (N.P.V.): No par value indicates a common stock with no stated face value.

ODD LOT: A number of shares which totals less than a board lot.

OPTION: An option provides the right to buy or sell a particular security or property at a specified price within a specified time. (See Puts and Calls.)

OVER-THE-COUNTER (OTC): A market for securities made up of securities dealers who may or may not be members of a recognized stock exchange. e.g., the NASDAQ Over-The-Counter-Bulletin Board. The OTC is mainly a market conducted over the telephone. The OTC is also called the unlisted, inter-dealer or street market.

PREFERRED STOCK: This is a class of shares that entitles the owners to a fixed dividend ahead of the company's common shares and to a stated dollar value per share in the event of liquidation of the company's assets. Preferred shares usually do not have voting rights unless a stated number of dividends have been missed.

PRICE EARNINGS RATIO: A tool used to evaluate a company's financial performance. It is the common stock's present market price divided by its annual earnings per share.

PROXY: A proxy is a written authorization provided by a shareholder to someone else, who may not be a shareholder. The proxy holder will then represent the security holder

and vote his or her shares at a shareholders' meeting of the company.

PUTS AND CALLS: These are options that provide the security owner the right, but not the obligation, to sell or buy a fixed amount of a specific stock at a specified price within a specified time. A put provides the holder with the right to sell the stock and a call provides the security owner the right to buy the stock. Puts are usually bought by investors who predict a stock will go down in price and calls by those who believe the stock price will increase. Puts and calls are also available on precious metals, bonds, currencies, futures contracts and stock indices.

REVERSE SPLIT: Same as a share consolidation, whereby a company exchanges a greater number of its shares for a lesser number, e.g. one share-for-three shares. This practice results in a higher share price and less shares outstanding. This is usually done when there are too many shares outstanding and the share price is low, making for significant dilution with future financings unless a consolidation is completed.

SHORT SALE: The selling of a security that the seller does not own. This is done when the investor believes the price of a stock is going to fall. With a short sale, the seller can cover the sale by buying it back later at a lower price; in other words – sell high – buy low. It is a breach of security regulations for a seller to not declare a short sale at the time of placing the order. Short sales must be made on an up-tick of the share price.

SPLIT: The opposite of a consolidation or reverse split. A split divides a company's outstanding common shares into a larger number of common shares. A five-for-one split with one million common shares outstanding would result in five million common shares outstanding after the split. Splits usually occur with stocks that have risen so high that more investors could participate at a lower market price. e.g., with a five-for-one split, a \$100 share would then be worth \$20.

STOCK DIVIDEND: A payment to common shareholders of additional common shares made on a pro rata basis. A stock dividend increases the number of shares each investor owns; however, it does not alter a shareholder's proportional ownership of the company.

STOP BUY AND STOP LOSS ORDERS: These are orders to buy or sell, placed above or below the market price, which become market orders as soon as the price of a board lot of the stock rises or falls to the specified price. A stop buy order is utilized to protect against losses in a short sale. A stop loss order is utilized to protect a paper profit or to limit a potential loss when shares are already owned.

TECHNICAL ANALYSIS (CHARTING): A technique of security and stock market analysis as indicated in charts showing stock price movements and trading volumes. Technical analysis is conducted with a view to predicting the future price action of a security.

WARRANT: A certificate that provides the holder the right to buy securities at a set price for a specified time limit. Warrants are often issued with a new issue of securities as an inducement to investors to buy the new issue. ♦