Stock Market Terms for Beginners

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Arbitrage

Arbitrage is the practice of buying and selling the same assets in different markets with the aim of generating profits due to price discrepancies.

Ask

The price traders are selling stock for at any given time.

Asset Allocation

Asset allocation refers to how someone distributes their investment capital across asset classes based on someone's financial goals and risk tolerance.

Asset Classes

A category of investments with similar characteristics.

Bid

The price traders are willing to pay for an asset or shares of a stock

Bid-Ask Spread

The difference between the ask and bid of a particular asset or stock.

Bear Market

When stocks or the overall drop by at least 20% from their previous high. You may also hear a stock referred to as "bearish," which means it's expected to drop in value.

Beta

The measure of an asset's market risk compared to the overall market. A stock or asset with a beta value less than 1.0 typically has less volatility, whereas an asset with a beta value greater than 1.0 has a higher volatility risk. A stock with a beta value of exactly 1.0 generally has the same volatility risk as the overall markets.

Blockchain

A decentralized ledger or database that records and tracks cryptocurrency transactions.

Blue-chip stock

A share in a reputable company with a strong track record of consistent earnings and solid financial results. Some examples include Microsoft (NASDAQ: MSFT), Apple (NASDAQ: AAPL), McDonald's (NYSE: MCD), Coca-Cola (NYSE:KO), and Disney (NYSE: DIS).

Bonds

Loans made to corporations or governments in exchange for regular interest payments. An investor who purchases a bond has their principal investment returned once the bond reaches maturity.

Bull Market

When an asset or the overall market jumps by 20% from its previous low. A stock that's described as "bullish" is expected to increase in value.

Capital gains

The profits earned by selling an asset for more than its original purchase price.

Common Stock

A type of security that represents partial equity, or ownership, in a company. Those who own common stock in a particular company are allowed to vote on things like company policies and who sits on the board of directors. In most cases, one share is equal to one vote, so the more common stocks you own in a company the more voting power you have.

Day Trading

The practice of buying and selling an investment vehicle within the same day.

Diversification

The practice of spreading your capital across various assets, such as the stock market and real estate. Essentially, it's making sure you don't put all your eggs in one basket. A person can always diversify their portfolio by ensuring they're investing in different industries and market sectors.

Dividends

Company earnings that are paid to its shareholders. The more shares you own in a company, the greater your dividends.

Dividend Yield

The ratio of annual dividends per share to its current share price.

Dow Jones Industrial Average

A stock market index comprised of the 30 most prominent blue-chip stocks listed on stock exchanges. Also known as the Dow Jones or simply the Dow.

Earnings Per Share (EPS)

A portion of a publicly traded company's profit that is allocated to each outstanding share. To calculate EPS, you take a company's annual or quarterly net income and divide it by the number of outstanding shares, or the amount of stock held by shareholders. EPS is one of the most common ways analysts measure a company's profitability. Generally speaking, higher EPS means higher profitability.

Economic Bubble

A period when an asset's market value exceeds its intrinsic value, generally brought on by investor enthusiasm or speculation. These assets' prices will rise greatly until the so-called bubble "pops," which generally results in investor losses.

Equity

In the stock market, equity refers to the value of a company's assets minus their liabilities. It can also refer to stock or ownership of shares in a company.

ETFs

ETFs stand for exchange-traded funds. They are a bundle of various investment types that generally match an investment strategy or theme, and are publicly traded just like individual stocks.

Exchange

A marketplace where traders and investors buy and sell stocks. The two most famous examples are the New York Stock Exchange (NYSE) and Nasdaq.

Futures

A legally binding contract between two parties to buy or sell an asset at a predetermined price.

Hedging

A risk management strategy that requires buying or selling an asset to offset potential losses.

Index Funds

An investment fund that tracks the performance of an underlying benchmark index, such as the S&P 500.

Inflation

An overall increase in prices of goods and services, which reduces people's purchasing power.

Initial Public Offering (IPO)

An IPO is when a private company "goes public" by listing itself on stock exchanges, thereby allowing investors everywhere to buy shares of its stock.

Limit Order

An order to buy or sell a security at a predetermined price, or better.

Liquidity

How easily or quickly a stock can be sold for without affecting its overall market price. An asset with high liquidity can be easily converted into cash, whereas those with low liquidity are more difficult to sell without taking major losses.

Margin

Sometimes called “margin trading,” a margin is when an investor borrows money from a broker to buy additional stocks.

Market Order

An order given to a broker by an investor to buy or sell an asset at the best available price.

Market Volatility

Market volatility refers to how much prices fluctuate over a specific period. High volatility is when there are rapid, steep price changes and generally indicate investor anxiety and uncertainty. Low volatility is when prices gradually change over time.

Mutual Funds

An investment vehicle that pools together funds from various investors to purchase stocks and other assets.

Nasdaq

The Nasdaq, or National Association of Securities Dealers Automated Quotations, is a stock exchange for companies in the technology, finance, transportation, finance and healthcare sectors.

Options Trading

The buying and selling of contracts that give investors the ability to buy or sell an asset at a set price during a set period. Traders who engage in options trading are not obligated to buy or sell those options.

Pattern Day Trader

A regulated designation that refers to an investor or trader who uses a margin account to make four or more day trades within a five-business-day period. The number of day trades made during this time must account for over 6% of your total trade activity in the margin account. Those designated as a PDT will face specific requirements and regulations set by the Financial Industry Regulatory Authority.

Portfolio

A collection of assets, such as stocks or real estate, owned by an investor.

Preferred Stock

Shares issued by a company that grant the holder higher priority for dividend payments, meaning you'll receive dividends before those who hold common stocks. They also generally offer higher yield than common stocks.

Price-to-earnings Ratio

A ratio of a company's share price compared to its earnings per share.

Profit Margin

The percentage of profit a business earns from its total revenue. To find a company's profit margin, you simply divide its net income by its overall revenue and multiply that number by 100. Companies with higher profit margins are generally considered more financially stable.

Recession

A significant decline in economic activity that spreads across the economy that lasts more than a few months.

S&P 500

Also known as the Standard & Poor's 500, it's a stock market index that tracks the 500 largest U.S. companies.

Sector

A group of companies or stocks that are within the same industry. Some examples include the tech sector, healthcare sector, and military defense sector.

Stock

A type of security that grants the holder partial ownership in the company.

Stock split

A corporate action undertaken by a company's board of directors that divides its outstanding shares into smaller or larger share units.

Stop-loss Orders

An automated instruction to sell an asset if it reaches a predetermined price, often used to limit any potential losses.

Trading halt

Temporary suspension of trading on a specific asset. During a halt, you cannot buy or sell the asset.

Trading Volume

The number of total shares or contracts traded during a given period.