

Finance

1.0 Aims

In this unit

- you will learn words frequently used in the world of finance
- you will learn the names of institutions commonly referred to in finance
- you will make use of your dictionary to check the grammar of words and make word families
- you will also use your dictionary to check the figurative meanings of phrases

Part one: The basics

This section is intended for students of all subjects. The vocabulary used will help you understand the world of finance but you will also find that many of the words are also used (possibly in a different sense) in your subject area too.

2.0 Introductory text

The text below was taken from the Guardian Unlimited Web site. It explains some of the basic terminology about shares.

The word *sentiment* is used in the text. Here are two possible definitions of the word taken from a dictionary. As you read, choose which meaning is used here.

- a) feeling of love or sympathy
- b) an opinion or idea about a situation

What does *sentiment* have to do with share prices?

What is a share?

A share is simply a divided-up unit of the value of a company. If a company is worth £100 million, and there are 50 million shares in issue, then each share is worth £2 (usually listed as 200p in the money pages.) As the overall value of the company *fluctuates* so does the share price.

Shares can, and do, go up and down in value for various reasons. However, such movements are not usually for the most obvious of reasons. It would be very simple if a share were priced solely on what the company in question owned - its buildings, cars, computers, value of contracts in the pipeline etc. The total value minus company *borrowings* would be divided by the number of shares in issue and there would be the value of each individual share. But there is a fly in the ointment called "sentiment".

Why market sentiment matters

In general, share prices rise on the *expectation* (rather than the publication) of increased future profits and fall on published facts. If this sounds entirely mad, bear in mind that if an analyst predicts that ABC company will double its profits then the price will rise at the time of the prediction. When the results come through, revealing that profits have gone up "only" 75%, the price will probably fall because the current facts are less exciting than the earlier prediction.

Understanding this apparent nonsense is key to appreciating the behaviour of markets in general, and individual shares in particular.

Why companies want to please shareholders

Professional *investors* buy shares in the hope of benefiting from a rising stream of *income* over the long term. When profits are distributed to the shareholders the payments are known as "*dividends*". The capital value of a share - its quoted price - moves mostly in line with expectations of long-term dividend payment.

There are many reasons why the expectation may become better or worse. A *reduction* in alcohol duty would guarantee a rise in distilling companies making whisky. An increase in VAT would hit retailers. More technically, a positive or negative *assessment* of a company's management ability could change investor sentiment enormously.

So why do companies go through all this daily public examination and give shareholders votes to - in extremis - remove directors from their positions of power? The simple answer is that "*floating*" - selling shares in their companies to anonymous investors - raises millions of pounds to allow those same companies to expand into bigger and hopefully better businesses. Companies and shareholders alike have a responsibility to each other.

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Answers b) People's opinions or feelings about how a company will or might perform affects share prices as much as actual performance

2.1 Now read the text again paying particular attention to the highlighted words, for example, *share*. Complete the sentences below using a form of the highlighted words from the text above. You need to use each word once only. Pay close attention to the grammar of the sentence when choosing the correct form of the word (see below for more work on word families and dictionary use in 3.0 Strategies and Skills)

Example *assessment*

Professional investors _____ the management of the company

Answer *assess*

1. Companies often pay their shareholders a _____, in other words a percentage of their profits
2. When companies go public and _____ their shares, they do so to raise money to finance to expand their operations
3. Anyone who follows the stock markets will observe that share prices can _____ widely, even on a daily basis
4. _____ of future performance, rather than actual performance can drive share prices up or down
5. Both professional and private _____ can buy shares
6. Both increases and _____ in direct taxation can affect share prices
7. Professional investors are looking for a steady source of _____ from their investments
8. A negative _____ of a company's shares can drive its share price down
9. The value of a company is not just a question of subtracting _____ from total assets

2.2 The sentences below are all false but can be made true by replacing the highlighted word with a different word from the text

1. If an analyst predicts that ABC company will **halve** its profits then the price will rise at the time of the prediction
2. In general, share prices **fall** on the expectation (rather than the publication) of increased future profits and fall on published facts
3. An increase in VAT would **benefit** retailers
4. Investors should be looking for good returns in the **short** term

2.3 Metaphors and idioms

Metaphors are used in all kinds of texts, academic and otherwise. Here are some examples from the text above

- It would be very simple if a share were priced solely on what the company in question owned - its buildings, cars, computers, value of contracts **in the pipeline**
- The total value minus company borrowings would be divided by the number of shares in issue and there would be the value of each individual share. But there is **a fly in the ointment** called "sentiment"
- Professional investors buy shares in the hope of benefiting from **a rising stream** of income over the long term

- An increase in VAT would **hit** retailers

Sometimes we do not even recognise that words are metaphors, for example, *hit* here does not mean to strike physically but *to have a negative effect* on people. Most people, however, would understand this without thinking too much about it. Other metaphors are not so easy to interpret.

Match the metaphors highlighted in the sentences above with the definitions below. Note: One definition is not needed

- 1 touch someone, normally with great force
- 2 a continuous movement
- 3 make shares available to the public
- 4 something that is planned
- 5 a single person or thing which spoils an otherwise pleasant or positive situation

3.0 Strategies and Skills

3.1 Word families and dictionary use

In this section we are going to

- a) look at using word families to build your vocabulary
- b) look at how using dictionaries can help you with the grammar of words

A Financial word families

Fill in the table below, where possible. Remember we are interested only in the words used in their financial meaning. For example, **interest**, here means money paid by banks etc on money invested, and therefore the word **interested** does not belong in the table. In some cases it may be possible to have two nouns, or two adjectives.

Noun	Verb	Other forms
1.	earn	
2. growth		
3. expectation		
4. return		
5. capital		
6. liability		
7. interest		
8.	quote	
9.	invest	

B Using dictionaries to help with the grammar (nouns+prepositions) ¹

How do we use the words in sentences?

Check the words below in your monolingual dictionary. How are they used in sentences? Pay particular attention to the prepositions that go before or after the words

	investment	return	
earnings	growth	assets	

Now complete the sentences below using words from the box and adding any other necessary words.

1. A lot of the foreign _____ China over the last twenty years has gone to coastal regions
2. There was a 1.5% _____ real GDP in the third quarter
3. We are looking for a much higher and quicker _____ our investment than that
4. Pittsburgh-based PNC Bank, with \$75.9 billion _____, said its second-quarter earnings hit a record \$280 million
5. Analysts had predicted _____ 48 cents a share on average, according to First Call Corp

¹ For more practice on using dictionaries to help with grammar, see the Unit entitled 'Using Dictionaries'

Part two: Going deeper

This section is intended mainly for students of finance and economics. The vocabulary is generally technical although the non-specialist will find some words which cross subject boundaries

2.0 Reading the Financial Pages

As you read the financial pages you will find many of the words and abbreviations used in the box below. Match the definitions given with the words in this box.

Note you will not need all the words in the box.

<i>Price-earnings ratio (P/E)</i>	<i>High</i>	<i>Low</i>	<i>Close</i>	
<i>ask (or bid)</i>	<i>Change</i>	<i>Hds</i>	<i>dividend</i>	<i>yield</i>

1. The lowest price for the stock in the trading day
2. The price of the stock at the time the stock market closes for the day
3. The relationship between the price of the stock and the earnings generated by the company in the current year
4. The number of stock shares traded, expressed in 100s
5. The highest price for the stock in the trading day
6. The annual rate of return shown on an investment (usually shown as a percentage)
7. The amount of money paid quarterly by the companies to stockholders for each share of stock owned
8. The difference between two successive days' closing price of the stock

2.1 Company quotes on the Internet

The information in the table below relates to the British supermarket chain, Tesco. Look at the information and answer the questions that follow.

The screenshot shows the Yahoo! Finance website for Tesco (TSCO.L) in a Netscape browser window. The page displays the following information:

- Stock Price:** 242.75 p (as of 10:30)
- Change:** -0.75 (-0.31%)
- Volume:** 6,055,861
- Div Date:** Jun 28
- Day's Range:** 240.00 - 243.50
- 52-wk Range:** 229.50 - 268.75
- EPS (ttm):** 12.05
- P/E:** 20.21
- Mkt Cap:** 17.167B
- Div/Shr:** 5.60
- Yield:** 2.30

The browser window also shows the date and time: Tuesday, July 2, 2002 10:52AM. The address bar contains the URL: http://uk.finance.yahoo.com/q?TSCO.L&D=.

1. Which stock market was this information taken from: New York, Hong Kong, Tokyo or London?
2. How much would you have to pay for one share of Tesco?
3. What was yesterday's closing price for Tesco?
4. How many shares of Tesco have been traded since the market opened this morning?
5. How much did Tesco earn per share in the last year?
6. Does Tesco pay a dividend?
7. If you had bought 100 shares of Tesco at the lowest price of the year and sold it at the highest price for the year, how much money would you have made?
8. If you bought 100 shares of Tesco at the current price but had missed the chance to buy the shares at the lowest price for the day, how much more money would you have to pay?
9. What is Tesco's market cap?
10. If you wanted to sell shares in Tesco how much would you get at the moment?

3.0 How does the news affect stock prices?

We saw in the text at the beginning of this unit that different events can affect the movement of share prices. In the situations listed below what do you think will happen to share prices?

Choose from one of these four options

- a) Share prices will probably increase
- b) Share prices will probably decrease
- c) Share prices are likely to remain unchanged
- d) Not enough information to determine

Note The ***glossary*** at the bottom of the task will help you with some of the technical terms used here

1. After the meeting of the Federal Reserve's open market committee, Chairman Alan Greenspan declared an increase of 0.25% in interest rates. Share prices of the real estate companies and home builders will probably:
2. U.K. productivity sees a 6.4% increase, the largest gain since 1992. Share prices of Vodaphone, IBM, and BAT (British American Tobacco) will probably:
3. Oil prices have hit \$34 per barrel, the highest since the Gulf War. Share prices of British Airways, Lufthansa and Air France will probably:
4. The US Supreme Court has ruled that Microsoft has a monopoly on PC operating systems. The share price of Microsoft will probably:
5. The Financial Times in a surprise earnings feature has reported that Proctor and Gamble, makers of household and hygiene products, have now projected that earnings will be 21% below the Wall Street experts'(analysts) estimate due to higher expenses. Share price of P & G will probably:
6. The chairman of Barclays, Brain Steed, has announced his retirement. He will be replaced by George Hamilton, former CEO at Rolls Royce. City experts think Steed's retirement is a positive to the company. Share price of Barclays will probably:
7. President Bush announced that U.S. and Britain agreed to openly share data from a project to map human genes. Shares prices of the biotech stocks will probably:
8. Yahoo! held talks with eBay about various forms of partnership and a possible merger. Share price of eBay will probably:
9. The strike of Boeing's engineering and technical workers has delayed some testing and production of the F-25 fighter. Share price of Boeing will probably:

Discuss your answers with other students and then with the ***key*** on page 13.

Glossary

- The Federal Reserve is the body that decides on interest rates in the USA
- Wall Street is the name for the financial district in lower Manhattan, New York City, and the street where the New York Stock Exchange and many banks and brokerages are located. Sometimes also used to refer to the investment community in general. In the US it is sometimes simply referred to as 'The Street'.
- CEO means Chief Executive Officer
- Barclays is one of the main High Street banks in the UK

4.0 The ups and downs of the market

In the previous task we used the words *increase* and *decrease* to refer to share price movements. In the following task we will introduce you to many other words and phrases which are also used to describe to these movements.

Look at the words and phrases highlighted in the sentences below and decide whether they indicate *an increase*, *a decrease* or *no change*. Put the phrases in the appropriate boxes below. The first one has been done for you as an example.

Note: There are various references to financial institutions and instruments in the sentences. The *glossary* at the bottom of the task will help you with many of these terms.

<i>Increase</i>	<i>Decrease</i>	<i>No change</i>
		<i>hovered near unchanged</i>

(News items adapted from Reuters new service)

- European stocks ***hovered near unchanged*** at the close yesterday
- Allianz ***shot up 3.3 pct***
- Munich Re ***jumped nearly 5 pct***
- Germany's DAX index ***finished up 0.2 pct***, bolstered by the gains in insurance stocks, while Britain's FTSE 100 and France's CAC-40 each ***slipped 0.2***
- U.S markets ***looked set for a modest recovery*** from yesterdays tech sell-off, with Nasdaq 100 index futures ***up 11 points*** and S&P 500 index futures ***up 2.1 points***
- With German and French inflation levels reaching unsustainable levels, ***an increase of 50 bp is expected***
- ***Any larger hike in rates*** could lead the markets into a tailspin said Gavin Davies, chief economist at Goldman Sachs in London
- Auto analysts predict subdued car exports for Daimler Chrysler in the face of ***falling demand*** in Asia and a weak dollar
- The battered European single currency ***extended its relentless decline*** in late U.S trade yesterday, ***slipping to fresh record lows below 88 cents*** and 93 Yen. The Euro traded as low as 87.89 cents, ***down a full cent*** from its overnight high of 88.89 cents according to Reuters data

- Borrowing by UK consumers **fell back** last month after January's **record rise**, confirming the slowdown in retail spending seen in February, Bank of England figures show.
- Sterling **soared to its highest level** against the euro in nine years today, leaving City analysts puzzled by its continuing strength
- Germany's benchmark DAX index extended this week's losses led by falls in chemical stocks. Bayer SG led chemical shares down, **tumbling 3.86 pct** to 44.13 euros and BASF AG **dropped 2.72 pct** to 41.50 euros.
- BNP-Paribas, France's top bank by market capitalisation, reported **a 17 pct rise** in first-half net profits to 2.59 billion euros today
- The ECB has just announced **a hike** in the Lombard rate of 100bp with immediate effect. A spokesman for the ECB said the move was necessary given the **spiralling level** of inflation in the 'Eurozone'
- European markets **plummeted** this afternoon following the ECB's decision to raise interest rates by a full 1 pct
- European stocks ended the day yesterday **almost 5 pct down** across the board as a result of the 1 pct hike in rates by the ECB
- European stocks **remain very weak** across the board due to the high inflation, high interest rate environment

Glossary

1. Hang Seng, Dow Jones are indices of the Hong Kong and New York stock markets while the Nikkei is the index of the Tokyo stock market. FTSE 100 (Financial Times Stock Exchange) is one of the indices of the London Stock Exchange, the DAX is the German stock market index while CAC-40 is that of the Paris Exchange.
2. Goldman Sachs is a global investment and securities firm
3. ECB is the European Central Bank, which makes decisions on interest rates that affect all the countries in the Eurozone (in other words countries in the EU that have adopted the Euro)
4. 'The City' is the City of London. The term is used to refer to all the financial institutions in London
5. Allianz, Munich Re and Daimler Chrysler are companies listed on various stock markets.
6. Europhile, someone who is in favour of the Euro (see also Anglophile, someone who loves England and so on)

5.0 Figurative language

In all areas of life we use language figuratively. Stock markets are no exception to this rule. Look at the news items below which have all been adapted from original items recorded by Reuters. The figurative language was taken directly from the original stories and has not been changed in any way.

1. The major domestic markets were **a mixed bag**, with the Nikkei up 0.8 pct, while the Dow Jones and Hang Seng both slipped 0.3.
2. Any larger hike in rates could lead the markets into **a tailspin** said a chief economist at Goldman Sachs in London.
3. Traders say a lack of action by European policymakers to halt the Euro's slide was keeping the currency under pressure. "It's just **a green light** to continue to sell the Euro", said a senior currency trader at Fortis.
4. Amidst volatile trading of individual stocks, European markets remained nervous head of the ECB's announcement tomorrow at 14:30 GMT. "Any signs of increased inflationary pressures implied by a larger than expected rate hike could **lead to a bloodbath**" said a spokesman for a major German brokerage.
5. Car maker Daimler Chrysler confirmed that it is in the "exploratory stages" of acquisition talks with Honda Motors of Japan. "We have been looking for a suitable partner in the Far East for some time and this may be the one that **fits best**, although it's **still early days**", a member of the board said.
6. The UK economy has been moving at two different speeds, with a rapidly growing services sector **outpacing** sluggish manufacturing, latest CBI (Confederation of British Industry) survey confirms.
7. BNP-Paribas, France's top bank by market capitalisation, reported a 17 pct rise in first-half net profits to 2.59 billion euros today. The rise was helped by a 6.5 pct increase in the bank's **bread and butter** domestic retail banking income.
8. "There are bound to be **teething problems** when dealing with new sophisticated technology, but so far nothing indicates these problems are insurmountable", a spokesman for the company said.
9. The DAX is expected to open weaker this morning with most traders preferring to **remain on the sidelines** to allow the rate hike news to sink in.
10. Many investors are waiting for Europhile politicians to give them an intelligent and reasoned argument as to why having the Euro at all is a good thing, instead of listening to politically motivated **hot air** all the time.

Technical Notes

The CBI is the Confederation of British Industry which represents major private employers in the UK.

Match the items highlighted above with the definitions below

- Something is completely out of control
- Making a lot of noise but without any real action taking place
- Difficulties that occur when something new is being tried out or introduced
- Giving approval to someone to do act

- When something is exactly what you are looking for
.....
- A range of different people or things
.....
- Going faster than something else
.....
- Activities or issues that are of basic importance to people every day
.....
- Causing a lot of problems and competition
.....
- Not getting directed involved in an activity
.....

5.3 Notes on figurative language

'bloodbath' : This term is most normally used in describing the consequences of military or terrorist actions but is only one of a number war terms found in finance, others include; *to make a killing, to die, war, defeat and victory* (for example, *petrol war* would refer to petrol companies undercutting each other's prices).

'outpace' and **'at two different speeds'**: The metaphor here is from cars and is part of a wider lexicon of metaphors that derives from engines and machines. Other examples, include *put the brakes on, backseat driver, backfired, overheating* (as in *the economy is overheating*) and so on.

'give the green light': This is one of many travelling/road/route map metaphors that include: *going in the right direction, uphill work, signposting, red light, a dead end* and so on.

'remaining on the sidelines': this image, taken from the world of team sport is one of many from the world of sport that one can find in finance, including; *knock out, killer punch, last the distance, marathon, team player, short sprint, for the high jump, score an own goal, to be dropped* and so on.

Answers to “How Does News Influence Stock Prices?”

1 Share prices will probably decrease.

If the Federal Reserve declares an increase in interest rates, mortgage payments will increase. This increase will cause housing to be less affordable, therefore hurting share prices of real estate and construction companies.

2 Share prices are likely to increase.

Companies such as, IBM, and BAT will be more profitable as a result of higher productivity. The companies will be able to make more while having lower production costs.

3 Share prices will probably decrease.

The airline companies will have to pay higher fuel cost. They may not be able to pass on the increased cost to passengers.

4 Share price are likely decrease Because the court declares a monopoly on Microsoft, the government will probably impose penalties on Microsoft. Also, hundreds of private pending lawsuits are arising against Microsoft.

5 Share price will probably decrease.

Changes in share prices are greatly tied to earnings. In addition to P & G's reported poor earnings, Wall Street doesn't like downside surprise earnings.

6 Share prices are likely to remain unchanged.

Both managers are well-respected industry leaders. The retirement of any one will not affect the operation of the company because the new CEO is competent to take over the job without any problems.

7 Share prices are likely to decrease.

The private sector will be competing with the huge amount of resources and research as a result of the government-funded labs.

8 Share prices will probably increase.

eBay will be the target that Yahoo wants to acquire.

9 Share prices are likely to decrease.

The strike is likely to affect Boeing's sales and delivery of products to the government.

Appendix

Academic word list

This Unit has featured the following words from the academic Word List

AWL [123:213] academic acquire acquisition adapted affect analyst annual apparent
appreciating appropriate area assessment available
benefit
chemical community computers confirm consequences construction consumers
contracts currency
data decline definitions derives distributed domestic
economics economist economy enormously environment estate estimate expand experts
exports
feature federal finance financial fluctuates funded
generated global goal guarantee
highlighted
ignore image implied impose income index indicate individual institutions intelligent
investment investor involved issue items
job
located
major military motivated
negative normally
obvious occur overall
percentage physical positive predict prediction previous professional project publication
published
quoted quotes
range ratio recovery remove research resources revealing
section sector securities solely sophisticated supreme survey
target task team technical technology terrorist text
unsustainable
vocabulary