# Stock Basics Terminology

**Sudweeks** MBA620/Fin 418 Day 16

**Assets under management**. This is another way an investment advisor is paid. It is calculated as a percentage of your assets under management, i.e., if you have $500,000 with an advisor and their fee is 1.0% per year, you will pay them $5,000 per year.

**Captive brokers**. These are brokers whose company is part of a group which owns a mutual fund company. These brokers may be encouraged to sell company mutual funds which may not be the best fit for the investor but are in the interest of the company.

**Cash accounts**. This is money with the broker which you use to pay for purchases or receive any cash. There is a specific time between notification of purchases and when the purchases must be paid.

**Commissions**. Commissions are the way a broker or investment advisor is paid. It is either a percentage of every buy or sell order (e.g., 20 bps per trade), or a specific charge for a trade (e.g., $9.99).

**Day orders**. These are orders to buy and sell securities which are good only until the end of the trading day.

**Deep-discount and on-line brokers**. These are brokers who are even cheaper than discount brokers. They do only trading, but at a 90% discount to full-service brokers. On-line can even be cheaper with other services.

**Discount-service brokers**. These are brokers who only perform trading, but usually at a 50% to 70% discount to full-service costs.

**Discretionary accounts**. These are accounts where you authorize a broker or investment advisor to make trades for you and your account. Exercise caution with this as the broker can buy and sell securities at will and you are responsible for all taxes and commission costs.

**Full-service brokers**. These are brokers who will give you all the tools, research and other advice to help you trade and invest.

**Independent brokers**. These are brokers whose company is not part of a major chain or who own a captive mutual fund company. They may be inclined to give unbiased advice as they do not sell specific mutual funds.

**Initial public offerings** (IPOs). These are the very first shares ever issued by a company. Investment bankers serve as underwriters or intermediaries for these IPOs

**Investment advisor**. A person or an organization that helps makes the day-to-day decisions regarding a portfolio’s investments for investors.

**Limit orders**. These are orders to sell or buy a specific number of shares at a specific price or better. This is generally the best method in working with brokers.

**Maintenance margin**. This is money you put up to buy on margin. If your maintenance margin falls below a specific level, you will be required to put up more money. If not, your position will be closed out.

**Margin accounts**. These are accounts where you borrow from the brokerage firm to purchase financial assets. This is debt, and can amplify both gains and losses.

**Margin call**. This is a call by the broker to put up more money when your margin declines below a certain level. I recommend you do not buy on margin. It is using debt to invest and you can lose more than your original investment doing this.

**Market orders**. These are orders to sell or buy a specific number of shares at the currently available or market price. Be careful as the market can move quickly and dramatically between when you place the order and order execution time.

**Open orders** (GTC: good till canceled, GTD: good till date specified). These are orders which are good until filled or canceled. Be very careful with open or GTC /GTD orders. If you fail to cancel specific orders, you might have orders filled that you forgot to close out.

**Primary and Secondary markets**. Primary markets are markets for trading newly issued securities. Secondary markets are for trading already issued shares of stocks, bonds, and other securities. Secondary markets consist of organized exchanges and over-the-counter or electronic markets where existing shares are traded.

**Securities markets or organized exchanges**. These are areas used to facilitate trading of financial instruments.

**Over-the-Counter (OTC) Market**. This is an electronic network of dealers used to execute trades without specialists or middle-men.

**Seasoned new issues**. These are new shares being issued by a company that is already publicly traded.

**Stockbroker**. A stockbroker is a person who is employed by and solicits business for a commission house or merchant.

**Stop (or stop-loss) orders**. These are orders to sell a specific number of shares if the stock price falls below a certain price or buy a specific number of shares if the stock price rises above a certain price. These are used to set prices to safeguard against major fluctuations.