

# Equity Society

## Financial Definitions:

### *Company Financial Definitions:*

#### **Earnings**

- The amount of profit that a company produces during a specific period of time (usually reported as quarterly or yearly)

#### **Market Capitalization**

The number of shares outstanding times the current price of the stock (therefore, as the stock price increases so does the market capitalization, and as the stock price decreases so does the market capitalization)

#### **Income Statement**

A financial statement that measures a company's financial performance over a specific accounting period. This statement focuses on the business' revenues and expenses, which includes both operating and non-operating activities.

#### **Balance Sheet**

A financial statement that summarizes a company's assets, liabilities, and shareholder's equity at a specific point in time. The balance sheet must always follow the this formula:

Assets= liabilities + shareholder's equity

#### **Statement of Cash Flow**

This document provides aggregate data regarding all cash inflow a company receives from both its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a specific quarter or year.

#### **Gross Margin (gross profit)**

A company's total sales revenue minus its cost of goods sold.

#### **Net Income**

Income that a firm has after subtracting costs and expenses from the total revenue.

#### **Accounts Receivable**

Money owed by customers to another entity in exchange for goods or services that have been delivered or used, but not yet paid for.

## **Accounts Payable**

A value that represents an entity's obligation to pay off a short-term debt to its creditors.

## **Accounts Payable Turnover ratio**

A short-term liquidity measure used to quantify the rate at which a company pays off its suppliers.

## **Operating Margin**

A ratio used to measure a company's pricing strategy and operating efficiency

## **Free Cash Flow**

A measure of financial performance that represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. It allows a company to pursue opportunities that enhance shareholder value.

$$\begin{aligned} & \text{Net Income} \\ & + \text{Amortization/Depreciation} \\ & - \text{Changes in Working Capital} \\ & - \text{Capital Expenditures} \\ & \hline & = \text{Free Cash Flow} \end{aligned}$$

## **Operating Cash Flow**

The cash generated from the operations of a company, and can be found on the statement of cash flow. This is the most important number of any financial statement. This describes how much revenue in flow a company is making from selling their product or service. If there is no operating cash flow, or if it is negative, then the company will not be able to survive long-term.

$$\text{OCF} = \text{EBIT} + \text{Depreciation} - \text{Taxes}$$

## **Stock definitions:**

### **P/E**

- Price to earnings multiple- how many times earnings the company is trading for

$$\text{P/E ratio} = \frac{\text{Price per Share}}{\text{Earnings per Share}}$$

### **EPS**

Earnings per share-the portion of a company's profit allocated to each outstanding share of common stock

$$\text{Earnings Per Share} = \frac{\text{Profit}}{\text{Weighted Average Common Shares}}$$

$$\text{Earnings Per Share} = \frac{\text{Net Income-Preferred Dividends}}{\text{Weighted Average Common Shares}}$$

### **TTM P/E**

Trailing twelve month price to earnings ratio- taking the current stock price and dividend it by the trailing earnings per share for the past 12 months

$$\text{Trailing P/E Ratio} = \frac{\text{Current Share Price}}{\text{Trailing Twelve Months' Earnings Per Share}}$$

### **Trailing EPS**

The sum of a company's earnings per share over the previous four quarters.

### **Dividend**

Distribution of a portion of a company's earnings decided by the board of directors, and given to the share holders. (Most dividends are paid in \$\$ but can be a stock dividend)

### **Stock Dividend**

A dividend payment made in the form of additional shares, rather than a cash payout.

### **Dividend Yield**

A percentage of how much a company pays out in dividends each year relative to its share price. (If the stock price goes down then the yield increases and if the stock price goes up the yield decreases.)

$$\begin{aligned} \text{Current Dividend Yield} &= \frac{\text{Most Recent Full-Year Dividend}}{\text{Current Share Price}} \\ &= \frac{\$1}{\$20} \\ &= 0.05 \\ &= 5\% \end{aligned}$$

### **Ex-dividend date**

The date that you need to be on record of owning the stock in order to receive the dividend (usually it is 3 days before the ex-dividend date, b/c the paper work takes time)

### Declaration Date

The date on which the next dividend payment is announced by the directors of a company

### ROE-

A measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.

$$ROE = \frac{\text{Net income}}{\text{Average stockholders equity}} \quad [1]$$

### ROA

How profitable a company is relative to its total assets.

$$\text{Return on Assets} = (\text{Profit margin}) * (\text{Total Asset Turnover})$$

$$ROA = \text{EBIT} / \text{Total Assets} = (\text{Sales}/\text{Total Assets}) (\text{EBIT}/\text{Sales})$$

### Price to Sales

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

$$= \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

### Price to Book

A ratio used to compare a stock's market value to its book value.

$$P/B \text{ Ratio} = \frac{\text{Stock Price}}{\text{Total Assets} - \text{Intangible Assets and Liabilities}}$$

### Debt/ Equity

A measure of company's financial leverage calculated by dividing long-term debt by stockholder equity.

### Stock Split

A type of corporate action where a company's existing shares are divided into multiple shares. Although the amount of shares outstanding increase by the specific multiple, the total dollar value of the shares remains the same compared to the pre-split amounts. Therefore, since the existing shares have been divided by a multiple the price of the stock is also divided by that multiple.

## **Reverse Stock Split**

A reduction in the number of a corporation's outstanding shares. When this happens, the number of shares decreases by a multiple, which then increases the stock price by the same multiple.

## **Preferred Stock**

A class of ownership in a corporation that has a higher claim on the assets and earnings than the common stock. Preferred stock usually has a large dividend that has to be paid out before any dividends are paid out to the common stockholders. Also, preferred stock usually do not have voting rights.

## ***Technical Definitions***

### **Simple Moving Average**

Adding the closing prices of the security for a number of time periods and then dividing this total by the number of time periods. Short term averages respond quickly to changes in the price of the underlying, while long-term averages are slow to react.

### **Exponential Moving Average**

A type of moving average that is similar to the simple moving average except more weight is given to the latest data .

### **Volume**

The number of shares or contracts traded in a security or an entire market during a given period of time.

### **Relative Strength Index**

A technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine whether the stock is over bought or over sold. (If the RSI is 30 or below, then the security is over sold, and technically speaking the stock should increase. If the RSI is 70 or above then the security is over bought, and technically speaking the stock should decrease.)

### **Boiler Bands**

A technical analysis that creates three bands. The middle band is the simple moving average. The two outstand bands are two standard deviations away from the mean. You can change how much past data is used by changing the duration of the moving average.

### **MACD**

A technical analysis that tracks trend-following momentum indicator that shows the relationship between two moving averages of price. The MACD is calculated by subtracting the 26 day exponential moving average from the 12 day exponential moving average.

## Candlestick Charting

A way to chart the prices of securities. A price chart that displays the high, low, open and close for a security each day over a specific period of time.

