Value Investing Journey Glossary Of Terms

Introduction

Welcome to the **Value Investing Journey Glossary Of Terms**.

The following terms, words, phrases, and metrics are important general finance and value investing terminology that is important to understand.

These things are the foundation of your value investment knowledge and like with a house, without a well put together foundation the entire structure will eventually collapse.

With this knowledge, the other free Value Investment resources you now have in your possession, and continuous improvement, practice, and learning you too can become a great value investor.

Sincerely Yours,

Jason Rivera

Chairman, CEO, and Founder of Rivera Holdings LLC.

Founder of Value Investing Journey

Author of How To Value Invest

Author Of On Float

P.S. All these value investment resources you're getting today are just the beginning of your own value investing journey. I will be there to help the entire way and continue sending you valuable information that will improve your knowledge, skill set, and investment and analytical abilities.

A

Annalized Return

Annualized Return: The return on investment you receive in a twelve-month period, stated as a percentage. When you place several short-term trades, an annualized return allows you to compare the results of each trade using the same time frame.

For example, Trade A returns 2% in one month. Trade B returns 6% in three months. When you assume each trade lasts one year, you can compare each trade the same way. If Trade A lasts one year, it would earn 24% (2% times twelve months in one year). If Trade B lasts one year, it would earn 24% (6% times four quarters in one year). This annualized return calculation shows you the return for each trade is identical.

American Depository Receipt (ADR)

American Depository Receipt (ADR): Shares of foreign companies that are bought by American banks and packaged together. The banks then sell these "foreign" shares on exchanges in the United States.

Foreign companies do this to gain access to the US market but without having to go through further regulatory filings with the SEC. They do this because they are already listed on their home market exchange and don't want to get charged again for the same things.

Amortization

Amortization: The paying off of debt with a fixed repayment schedule in regular installments over a period of time. Consumers are most likely to encounter amortization with a mortgage or car loan.

The spreading out of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life) for accounting and tax purposes. Amortization is similar to depreciation, which is used for tangible assets, and to depletion, which is used with natural resources. Amortization roughly matches an asset's expense with the revenue it generates.

Arbitrage

Arbitrage: Is a general Wall Street term that means the simultaneous purchase and sale of an asset to take advantage of small differences in prices.

While "arbitrage" often involves complicated securities and strategies, you can think of it with a simple example of two booksellers just a few miles away from each other.

Let's say Bookseller A is selling a book for $20 and Bookseller B is selling the same book for $15. If you could buy the book from Bookseller B for $15 and sell it to Bookseller A for $19, you could buy Bookseller B's entire inventory, sell it to Bookseller A, and make a profit of $4 per book.

Asset

Asset: A resource with economic value that and individual, corporation, or country owns.

B

Balance Sheet

Balance Sheet: Is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

The balance sheet always follows this formula: Assets = Liabilities + Shareholders' Equity.

The balance sheet is one of the "big three" financial statements a publicly-traded company is required to disclose to the public and the SEC. The other two are the income statement and the statement of cash flow.

Bond Coupon Rate

Bond Coupon Rate: Is the stated annual interest rate when a bond is issued. The coupon is typically paid semi-annually. For example, if a $1,000 bond has a 10% coupon rate, it will pay two $50 payments per year for an annual return of $100.

The bond coupon rate should not be confused with bond yield, which is calculated by dividing the interest rate by the current bond price.

Book Value

Book Value: The value of an asset, according to its balance sheet. Think of book value as what a company would be left with if it closed down, sold off all of its assets, and paid off all of its debts.

Book Value per Share

Book value per share: Is the ratio of shareholder equity to the average number of shares of common stock outstanding. It indicates the accounting value of each share of stock.

Unlike market value per share, book value per share is an accounting measure that is not an indicator of what investors believe a company's shares are worth. If the market value per share is lower than the book value, the stock price is typically going to be undervalued.

To calculate book value per share: (Shareholder's equity – preferred stock) / average outstanding common stock.

Bonds

Bonds: Are loans. There are three major classes: government bonds, municipal bonds, and corporate bonds. Government bonds are loans to national governments. Municipal bonds are loans to state and local governments. Corporate bonds are loans to companies.

When you buy a bond from a company, you're lending that company your money. The bond is just your certificate for this loan. As with any loan, the company has a legal obligation to pay your money back on a certain date, while paying you interest over the duration of the loan.

If the company doesn't pay you back, it must declare bankruptcy.

Bonds are tradable. Perhaps you agreed to lend a company $5,000 for 10 years, but after five years, you want your money back. You won't get it from the company. It's keeping your money for another five years.

In that case, you can sell your bond to another investor. Assuming nothing has impaired the company's ability to pay back its debts since you made the loan, the bond will still be worth $5,000. Governments, companies, and investors like you and me trade trillions of these loan certificates every day. There's no formal bond exchange like there is for stocks. Big banks and brokers manage the purchase and sale of most bonds.

Like all loans, bonds earn interest. Some bonds have fixed interest rates. Others have floating rates of interest that move up and down with economic conditions.

Finally, bonds have a maturity date. This is the date when the company must pay back its loan to whoever holds the loan receipt.

Buyback

Buyback (also known as a share repurchase): When a company repurchases outstanding shares. A buyback reduces the number of outstanding shares of a company that are available for purchase.

Buybacks are good for shares you own in a company if management buys back shares when the company is undervalued. When this happens it means the company has the same amount of assets but fewer shares. And this means that the remaining shares are now more valuable.

Buy-Up-To Price

Buy-Up-To Price: The maximum amount you should pay for an investment. Basically, you're telling your broker, "If you can't buy this investment for $X or less, do not make the trade."

C

Cap Ex or Capital Expenditure

Cap Ex: Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory.

Capital Employed

Capital Employed: Total assets minus current liabilities.

- See Owner's Earnings for expanded use.

Cash Conversion Cycle (CCC)

Cash Conversion Cycle (CCC): Shows how long it takes in days for a company to convert resource inputs (e.g. inventory) into cash flows. Lower CCC means that a company is quickly generating cash from its sales. The CCC can be a negative number.

Competitive Advantage or Moat

Competitive Advantage or Moat: An advantage that firms has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

Combined Ratio

Combined Ratio: A measure showing whether an insurance company is selling profitable insurance policies. If a company has a combined ratio of more than 100% that means it paid out more in damage claims than it took in premiums.

If a company has a combined ratio of less than 100%, it received more money in premiums than it paid out. When an insurance company has a combined ratio below 100% that means it had an underwriting profit in that year.

Compounding

Compounding: A term used to describe what happens to your money if you reinvest the interest you earn from your investments. If you start with $100 and it compounds at 15% annually, you'll earn $15 in interest after one year.

In year two, you now earn 15% on a starting balance of $115. So at the end of the second year, you'll earn $17.25 in interest. This cycle continues—as you earn more and more with each passing year— because you're reinvesting the proceeds from the previous year.

Conference Call

Conference Call: An event during which investors can call in to hear a company's management report its quarterly results as well as forward, or projected, earnings. A conference call generally begins with an uninterrupted report from management. Then the meeting is opened up for questions.

While the average investor can only listen to the call, the reporting company will often answer questions from analysts. This type of conference call is also known as an "earnings conference call," "analyst call," "earnings call" or "results-earnings call."

Cyclical Company

Cyclical Company: Investment jargon for companies whose businesses go up and down with the economy.

D

Day Order

Day Order: An order that expires at the close of each market day.

Diluted Shares

Diluted Shares: The total number of shares that would be outstanding if all things like options, preferred stock, convertible bonds, etc. were exercised and outstanding. Also called fully diluted shares.

Dividends

Dividends: A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the dollar amount each share receives (dividends per share).

It can also be quoted in terms of a percent of the current market price, referred to as dividend yield. Also referred to as "Dividend Per Share (DPS)"

Dividends - The Declaration Date

Dividends - The Declaration Date: Is when the Board of Directors announces the company will pay a dividend. They also provide a date of record and a payment date.

Dividends - The Dividend Ex-Date

Dividends - The Dividend Ex-Date: Is the "cut-off" for rights to the dividend. If you own the stock before the dividend ex-date, you'll receive the dividend payment. But if you buy the stock on or after the dividend ex-date, you will not receive the dividend.

Dividends - The Payment Date

Dividends - The Payment Date: Is the actual date a company will pay the dividends.

Dividends - The Record Date

Dividends - The Record Date: is the date on which a company looks at its records for a list of shareholders. Investors listed as holders of record are entitled to receive the dividend payout.

Dividend Yield

Dividend Yield: A percentage figure to show how big or small a dividend is. For example, if you purchase 100 shares of Company A at its latest price of $47.86, it will cost you $4,786. Each quarter, Company A will pay you a dividend.

When you add up the four quarterly dividend payments, you will receive $0.60 per share owned. In this case $0.60 x 100 shares = $60. When you divide your $60 dividend by your purchase price of $4,786, you come up with a yield of 1.3%.

E

Earnings before interest and taxes (EBIT)

Earnings before interest and taxes (EBIT): Reflects the efficiency of a company. EBIT also is referred to as operating earnings, operating income, operating margin and operating profit. Anything over 10% consistently when a percentage is considered good. Can also be shown in absolute dollar terms.

Earnings Per Share (EPS)

Earnings per share: Is the amount of profit per share a company generates. It is a common measuring stick of how well a company is doing during one period of time versus another period of time.

For example, if a company generates $5 million in profit and has one million shares outstanding, the earnings per share would be $5.

Earnings Report

Earnings Report: Filing made by public companies to report their performance. Included in earnings reports are items such as net income, earnings per share, earnings from continuing operations and net sales. These reports follow the end of each quarter. Most companies file in January, April, July and October.

Earnings Yield

Earnings Yield: The amount an investor expects to earn annually based on the current purchase price of the stock. It is also known as the expected rate of yearly return. An earnings yield greater than three times the current treasury yield is generally considered an acceptable investment.

  - Types of earnings yields I use are EBIT/EV. EBIT/TEV. FCF/EV. FCF/TEV. OE/EV. OE/TEV.

Economic Goodwill

Economic Goodwill: *"Businesses logically are worth far more than net tangible assets when they can be expected to produce earnings on such assets considerably in excess of market rates of return. The capitalized value of this excess return is economic Goodwill."* Warren Buffett 1983 Berkshire Hathaway Shareholder Letter.

Enterprise Value

Enterprise Value: An estimate of a company's value that calculates worth by adding debt and subtracting cash from a company's market cap. This is a much better way to estimate a company's value because it includes debt and cash which market cap does not.

Calculated as market cap + debt + minority interest +preferred shares, minus total cash and cash equivalents.

EV/EBIT Ratio

EV/EBIT Ratio: A valuation metric. EV is the enterprise value. EBIT is earnings before interest and taxes. EV is used because it accounts for both debt and cash. EBIT is used to eliminate the distorting effects of different tax rates and capital structures.

F

Favorable Liquidity Event

Favorable Liquidity Event: An event that raises the overall value of the company. Such events include initial public offerings (IPOs), selling or restructuring the company, and creating spinoffs.

Free Cash Flow

Free Cash Flow (FCF): The operating cash flow minus capital expenditure. This is a lot harder to manipulate than earnings. And is the metric I use more than earnings.

FCF/Sales

FCF/Sales: A ratio that shows how much free cash the company is generating from its sales. The higher the ratio, the greater cash the company is producing.

Anything over 5% and the company is considered to be a cash producing machine. For example. If a company has a FCF/Sales margin of 20%. This means that for every $1 in sales. It generates $0.20 in FCF.

Float

Float: Usually refers to insurance companies but can also be found at companies that have competitive advantages. Float in essence is the use of intangible assets and non interest bearing liabilities that the company has, taking them, and using them to its advantage over time.

Can also be found at companies that have a lot of deferred revenues, accounts payable, etc. Float is a very valuable thing to find at a company because if a company has a substantial amount of float it can be like having a loan that the company has taken out… but instead of acting like debt where the company pays the bank it is like the company is being paid to hold that loan. One of the most important, powerful, and difficult concepts to understand as an investor.

For more in depth information on Float please go to this link.

Foreign Currency Fluctuations

Foreign Currency Fluctuations: The gains or losses a company experiences because of conducting business in other currencies. For example, if the U.S. dollar rises compared with the euro, they will be worth fewer dollars when earnings from European operations are converted back to U.S. dollars.

Form 4

Form 4: Is a document that must f filed with the SEC whenever there is a material change in the holdings of company insiders.

Insiders required to submit a Form 4 include directors and officers of the company as well as any shareholders owning 10% or more of the company's outstanding stock.

Form 10K

Form 10K: Is a mandatory, detailed annual financial report that the SEC requires to be filed by publicly traded corporations. The 10-K includes information such as audited financial statements, company risks and outlook, organizational structure, executive compensation, subsidiaries, among other information.

These forms are typically more detailed, audited versions of the quarterly Form 10Q.

Form 10Q

Form 10Q: Is a comprehensive report of a company's performance that must be submitted quarterly by all public companies to the SEC.

It contains similar information to the annual Form 10-K, however the information is generally less detailed, and the financial statements are generally unaudited. These reports generally compare this quarter with the previous quarter and the same quarter last year.

Form Proxy AKA Form DEF 14A

Form Proxy AKA Form DEF 14A: A filing with the SEC that must be filed when a shareholder vote is required. Most commonly filed when the annual shareholder meeting is going to be held.

Also details how much executives and directors get paid. Details compensation structure of both. Shows who owns more than 5% of the company's stock. Details related party transactions and more.

Fundamental Analysis

Fundamental Analysis: A method of evaluating a stock. With fundamental analysis, you examine and analyze a stock's economic and financial condition. You're trying to determine the real worth of the company given all its assets, liabilities, and projections of future earnings.

G

Goodwill

Goodwill: The amount in excess of tangible assets a company has paid when acquiring another company.

H

Hedge

Hedge: Making an investment or establishing a position that will reduce the risk of negative price movements in an asset. An example of one such offsetting position is a futures contract. Wise investors use this strategy when they are uncertain of what the market will do. This action reduces their risk or exposure.

Holding Company

Holding company: A parent company that owns shares or the entirety of other businesses that are its subsidiaries. Holding companies do not have operations of their own and rely on the subsidiaries for operations and cash.

I

Income Statement

Income Statement: Is a financial statement that provides a summary of a company's financial performance over a given accounting period. It shows how the business earned its revenues (also known as sales) and the expenses incurred in order to generate those revenues. The statement also shows the company's net profit or loss over the fiscal period.

The income statement is one of the "big three" financial statements a publicly-traded company is required to disclose to the public and the SEC. The other two are the balance sheet and the statement of cash flow.

Insider Buying

Insider Buying: Is the purchase of a company's shares by those who work for the company, or have access to material, non-public information. These insiders are typically known as officers (such as CEOs, CFOs, etc.) or directors. Insider buying, which is completely legal as long as it is reported to the SEC, should not be confused with insider trading – which is illegal.

Insider buying is generally viewed as a buy signal, since these insiders typically have access to non-public information. Studies have shown that following insider purchases tends to beat overall market returns. As fund manager Peter Lynch famously said, "Insiders might sell their shares for any number of reasons, but they buy them for only one: they think the price will rise."

Investors can track insider transactions by following submissions of the SECs Form 4.

Initial Public Offering or IPO

Initial Public Offering or IPO: The first sale of stock by a private company on the public stock markets.

Insider Ownership

Insider ownership: The amount of shares in a company owned by its executives, employees, directors, etc.

Generally the higher this percentage is the better. Insider ownership is a good indicator because it shows that the company's interest are aligned with shareholders.

Insurance

Insurance: A contract that protects against loss, damage, or liability arising from an unknown event. Insurance is a social device for spreading the chance of financial loss among a large number of people.

Transfer of risk is the basic principle of all insurance. By purchasing insurance, a person shares risk with a group, thereby reducing the individual potential for disastrous financial consequences.

Intangible Asset

Intangible Asset: An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.

An intangible asset can be classified as either indefinite or definite depending on the specifics of that asset. A company brand name is considered to be an indefinite asset, as it stays with the company as long as the company continues operations.

However, if a company enters a legal agreement to operate under another company's patent, with no plans of extending the agreement, it would have a limited life and would be classified as a definite asset.

Interest Rate on 10-year Treasury

Interest Rate on 10-year Treasury: The benchmark for almost every other interest rate around the world, including mortgage rates and corporate interest rates.

Intrinsic Value

Intrinsic Value: Is the actual value of an asset, instead of its market value (which is influenced by market conditions such as investor sentiment). Investors use different techniques to calculate intrinsic value, like a company's price-to-earnings ratio, cash flow, and/or book value. Investors commonly use intrinsic value to buy assets that are underpriced in the market.

L

Large Cap

Large-cap: Is a term used to describe companies with a market cap between $10 billion and $100 billion. These are typically large, safe, reliable companies that are more likely to pay out dividends and less likely to go out of business. Although they are less risky, their stock prices typically don't grow as fast as smaller-cap stocks.

The dollar amounts used for the three market cap classifications ("large cap," "mid cap," and "small cap") are approximations that typically change over time.

Liability

Liability: A company's legal debts or obligations that arise during the course of business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services.

Limit Order

Limit Order: An order to buy or sell a stock at a specific price or better. You tell your broker the minimum price you are willing to accept, even if it means you miss the executing the trade or have to wait longer to get it filled. This gives investors control over their entry price in an investment.

Liquidity

Liquidity: Is how fast an asset can be bought or sold. Assets that can be converted to cash quickly are known as liquid assets. And in reverse, assets that cannot be converted quickly to cash are known as illiquid.

Liquid assets, like stocks, mutual funds, and bonds, are thought of as safer than illiquid ones, like art or real estate, because it's quicker and easier to get in and out of the investment.

M

Market Order

Market Order: An order type that tells your broker to buy an investment like stock at the best available current market price. This type of order can result in you paying more in the case of stocks.

Market Cap

Market Cap: Is an abbreviation for market capitalization.

It's used to express the total value (or size) of a company. The basis of the number is simply share price multiplied by the number of shares outstanding – i.e. the total value of a company's outstanding shares.

Companies are typically referred to as "micro-cap," "small cap," "mid cap," "large cap," or "mega cap."

Market Value

Market Value: The current value at which the company is selling on the market. What a company is selling at in the market currently. Market value is derived by taking the company's market cap and dividing by its number of diluted shares.

- See intrinsic value for expanded explanation.

Master Limited Partnership or MLP

Master Limited Partnership or MLP: MLPs are a way for individual investors to earn tax-deferred income from energy transportation companies. For example, most MLPs own vast networks of oil and gas pipelines, receiving stable income streams as "toll collectors." Other types of MLPs include coal and timber transportation. Because they typically act as toll collectors, they are less sensitive to fluctuations in resource prices.

Like REITs, MLPs receive special tax treatment from the government – allowing them to pass along more income to investors. Additionally, MLP shares are technically known as "units," and dividends are called "distributions."

This means that income received from MLPs are not taxed as dividends or income. Income is usually taxed at the capital gains rate, and not applied until units are sold. Important Note: MLPs are not ideal for tax-deferred retirement accounts. You should consult a tax professional before investing in MLPs.

Mega-Cap

Mega-Cap: Is a term used to describe the largest publically traded companies on the planet. Although there is no exact definition, mega-caps are generally household names with a market capitalization that exceeds $100 billion.

Micro-Cap

Micro-Cap: Is a term used to describe the smallest publically traded companies on the planet. It typically refers to businesses with a market cap between approximately $50 million and $300 million. Micro-cap companies are generally riskier than all the other classes, but have greater potential returns.

Mid-Cap

Mid-Cap: Is a term that refers to stocks with a market capitalization in-between small-cap and large-cap companies.

Mid-cap companies generally have market capitalizations between $5 billion and $10 billion. Mid-cap stocks can have the attributes of both large-cap and small-cap companies. They are more established than small-cap stocks (so they're less volatile), while still offering more growth potential than large-cap stocks.

Mutual Fund

Mutual Fund: Is a professionally managed investment vehicle that pools money from investors and gives them access to diversified portfolios of equities, bonds, stocks, and other types of securities. Each investor owns shares that represent a portion of the holdings in the fund.

Investors use mutual funds to add to their portfolio and diversify their holdings for a much lower price than purchasing each security individually.

There are three main types of mutual funds – open-end funds, closed-end funds, and unit investment trusts.

N

Net Asset Value (NAV)

Net Asset Value: Is the price per share for an ETF or mutual fund. In both cases, the price is calculated by dividing the total value of all the securities in the fund's portfolio, less any liabilities, by the number of shares outstanding.

A fund is trading above its NAV is said to be at a premium, and one selling below its NAV is at a discount.

Net Current Asset Value (NCAV)

Net Current Asset Value (NCAV): Is a value created by the Father of Value Investing, Benjamin Graham, to determine a company's fair value.

Is calculated as current assets minus total liabilities. Anything selling below its NCAV is selling below the absolute minimum value it should be worth.

These are harder to find than when Graham was investing in the 30's – 60's. But can still be found on occasion.

O

Operating Cash Flow

Operating Cash Flow: The amount of cash generated by a company during a set period. To calculate the operating cash flow for the period, the cash flow statement starts with a company's net income. It is then adjusted for items such as depreciation and accounts receivable.

Over The Counter (OTC) Markets

Over The Counter (OTC) Markets: Also called The Pink Sheets. This is generally where ADR's and smaller US companies list shares.

Owner's Earnings

Owner's Earnings: The actual amount of earnings that an owner could take out of a business. Owner's earnings are calculated by:

Made up of net income + depreciation and amortization +/- other non-cash charges – full cap ex +/- changes in working capital. Owner Earnings better reflect the true value of a company than regular earnings (net income), which can be manipulated.

P

Payout Ratio

Payout Ratio: Measures what percentage of earnings a company pays out in dividends. To calculate a payout ratio, divide a company's dividends per share by its earnings per share. A high payout ratio indicates that a company is returning a high portion of its earnings directly to its shareholders. If the number is low, there is typically plenty of room for the company to increase its dividend.

Position Sizing

Position Sizing: The dollar value being invested into a particular security by an investor. An investor's account size and risk tolerance should be taken into account when determining appropriate position sizing.

Price-to-Book Ratio (P/B)

Price-to-Book Ratio (P/B): Tells investors how much they're paying for the net value of all the assets of a company. Put simply, it's the value of its assets minus its debts. The lower the price-to-book ratio, the cheaper it is.

Price-to-Cash-Flow Ratio (P/CF)

Price-to-Cash-Flow Ratio (P/CF): Measures how much cash a company generates relative to its current share price. Because this measure deals with cash flow, you remove the effects of depreciation and other non-cash factors. Calculate this figure by dividing a stock's current share price by its cash flow per share.

Profit

Profit: A financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business. Calculated as: Profit = Total Revenue – Total Expenses

Q

Quantitative Analysis

Quantitative Analysis: A way of measuring something's value. Examples of quantitative analysis include everything from simple financial ratios such as earnings per share to something as complicated as discounted cash flow models.

Qualitative Analysis

Qualitative Analysis: Is analysis that is subjective and based on nonquantifiable information. Things like management expertise and competence. Industry cycles. Analysis of research and development.

R

Real Estate Investment Trust (REIT)

Real Estate Investment Trust or (REIT): Is an entity that invests directly in real estate through either properties or mortgages. REIT's MUST pay out 90% of dividends to either the parent company or shareholders.

Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold. Revenue is also known as "REVs."

Relationship Between Interest Rates and Bond Prices

Relationship between interest rates and bond prices: Interest rates and bond prices have an inverse relationship. When interest rates rise, bond prices fall.

Relative Value

Relative Value: A method of determining a company's value that takes into account the value of similar companies. Calculations that are used to measure the relative value of stocks include the EV/EBIT, EV/FCF, TEV/ EBIT, TEV/FCF, P/E, P/B, P/S, EV/OE and TEV/OE.

Return on Capital Employed (ROCE)

Return on Capital Employed or (ROCE): Measures a company's profitability and how efficiently it uses its capital. The higher a company's ROCE, the greater its profitability and efficiency. A ROCE greater than 10% is generally considered good.

Return on Invested Capital (ROIC)

Return on Invested Capital or (ROIC): Measures how efficiently a company uses its capital. An ROIC greater than 10% is generally considered good.

Return on Equity (ROE)

Return on Equity (ROE): Measures how much money a company makes from each dollar shareholders invest. The higher the ROE percentage, the better. Think about it: If Company A can return $0.50 on every dollar you invest, while Company B returns only $0.10 for every dollar, you'd clearly want to go with Company A.

Return on Investment (ROI)

Return on Investment (ROI): Speaks to the efficiency of an investment. It measures the gain or loss generated on an investment relative to the money invested.

Revenue AKA Sales

Revenue AKA Sales: The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income.

Royalty

Royalty: A type of commission. The royalty owner gets a percentage of all sales generated. Examples of royalties include the money that a musician is paid for each album sold, or the money an author is paid for each book sold.

Royalty Trusts

Royalty Trust: Is a security that allows investors to earn royalties on natural resources, such as oil fields or coal mines.

Royalty Trusts are a great tool for investors who don't have the resources to buy their own well or mine. Additionally, since trusts often own numerous individual wells, oil fields, or mines, they're a convenient way for investors to diversify across numerous properties.

Like REITs and MLPs, royalty trusts receive special tax treatment from the government – allowing them to pass along more income to investors. Additionally, MLP shares are technically known as "units," and dividends are called "distributions."

This means that income received from trusts are not taxed as dividends or income. Income is usually taxed at the capital gains rate, and not applied until units are sold. However, unlike the relatively steady income streams of REITs and MLPs, royalty trusts are sensitive to fluctuation in the prices of their underlying assets.

S

S&P 500 Index

S&P 500 Index: A basket of stocks from some of the largest companies in the world. The S&P is one of the most common benchmarks investors use.

Small-Cap

Small-Cap: Is a term that refers to stocks with a small market capitalization (generally under $5 billion).

One of the biggest advantages small-cap stocks have over large-cap stocks is that mutual funds are limited from buying large portions of these companies – meaning individual investors can get in before Wall Street.

Small-cap companies also have huge growth potential, and can grow more quickly than large-cap stocks. But these companies can also be volatile (daily moves of 5% or more are common), and carry a higher degree of risk compared to more established companies.

Spin Off

Spin Off: When a new, independent company is created by selling or distributing new shares of an existing business or division of a parent company.

Statement of Cash Flow

Statement of Cash Flow: Is a financial statement that provides a summary of all cash inflows and outflows during a given financial period.

The statement of cash flows is one of the “big three” financial statements a publicly-traded company is required to disclose to the public and the SEC. The other two are the balance sheet and the income statement.

Stock Split

Stock Split: Is a term used to describe a proportional increase in the number of a corporation’s outstanding shares. The stock’s market capitalization stays the same.

The most common stock splits are 2-for-1, 3-for-2, and 3-for-1. For example, in a 2-for-1 split, each stockholder receives an additional share for each share held… but the value of each share is cut in half. Most stock splits are initiated after a rise in share price.

T

Taken Private Transaction or Going Private Transaction

Taken private transaction or going private transaction: When a public company’s shares are bought by a private entity and removed from the stock exchange.

Tangible Assets

Tangible Assets – Tangible things on a company’s balance sheet: Property, plant, and equipment, and current assets like inventory.

TEV/EBIT

TEV/EBIT: A ratio used to compare the performance of companies. This number should be 8 or under. The lower the TEV/EBIT value the more undervalued the company is on a relative basis.

VALUE INVESTING JOURNEY

TEV/FCF

TEV/FCF: Another relative valuation that is similar to TEV/EBIT. See TEV/EBIT definition for full explanation of what I look for.

The Difference Between Five Letter ADR's That End in Y and F

The difference between five letter ADR's that end in Y and F respectively... Great discussion in the comments section of the previously linked article. In short though five letter ADR's that end in Y (VIVHY) are more easily bought and sold in the US. Automatically get taxes taken out by the foreign government. And they trade at the normal brokerage rate (My broker is $6.95 per transaction.)

Five letter ADR's that end in F (VIVEF) are listed on the companies FOREIGN MARKET. In this case France. These are less liquid generally than the Y ADR's and can also cost more per transaction... Instead of the $6.95 my broker charges on normal transactions, including Y ADR's, F ADR's cost $75 PER TRANSACTION with my broker.

Total Enterprise Value or TEV

Total Enterprise Value or TEV: An expanded version of enterprise value. Calculated as: Market cap + all debt equivalents (including the capitalized value of operating leases, unfunded pensions, commitments, etc.) – cash and cash equivalents – short term investments – long term investments – net deferred tax assets.

In addition to debt, TEV also adds other expenditures to market cap, including operating leases, unfunded pensions, and net deferred tax assets. These are not reflected in the market cap or enterprise value and their absence can distort the true value of a company.

U

Unlevered Return on Net Tangible Equity

Unlevered return on net tangible equity: *"What a business can be expected to earn on unleveraged net tangible assets, excluding any charges against earnings for amortization of Goodwill, is the best guide to the economic attractiveness of the operation,"* Warren Buffett 1983 Berkshire Hathaway Shareholder Letter. The higher this number is the better... This number can be over 100%.

Upside Potential

Upside Potential: The potential dollar or percentage amount by which the market or a stock could rise.

V

Volume

Volume: Is the number of shares traded of a security or an entire market during a specified time. It's a measure of trading activity and an important indicator in technical analysis. It shows the strength of price moves in the market.

For example, if a stock buyer purchases 50 shares... That means the trading volume for that period increases by 50 shares following that transaction.

W

Y

Year Over Year (YOY)

Year-Over-Year (YOY): Measures the growth (or decline) of a financial metric. It compares this year's result with last year's result.

Yield

Yield: The income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Z
