Glossary of key terms

beta factor (β) The measure of the volatility of the return on a share relative to the market. If a share price were to rise or fall at double the market rate, it would have a beta factor of 2. Conversely, if the share price moved at half the market rate, the beta factor would be 0.5.

capital asset pricing model (CAPM) A theory which predicts that the expected risk premium for an individual stock will be proportional to its beta, such that the expected risk premium on a stock = beta × the expected risk premium in the market. Risk premium is defined as the expected incremental return for making a risky investment rather than a safe one.

economic value added (EVA™) Profit after tax adjusted for distortions in operating performance (such as goodwill, extraordinary losses, and operating leases) less a charge for the amount of capital employed to create that profit (calculated from the adjusted book value of net assets times the company's weighted average cost of capital). (Stern Stewart)

loan capital Also called debt, relates to debentures and other long-term loans to a business.

market value added (MVA) The difference between the market value of the company and the adjusted book values of its assets.

ordinary shares Shares which entitle the holders to the remaining divisible profits (and, in a liquidation, the assets) after prior interests, for example creditors and prior charge capital, have been satisfied.

preference shares Shares carrying a fixed rate of dividend, the holders of which, subject to the conditions of issue, have a prior claim to any company profits available for distribution. Preference shares may also have a prior claim to the repayment of capital in the event of a winding up.

rights issue The raising of new capital by giving existing shareholders the right to subscribe to new shares or debentures in proportion to their current holdings. These shares are usually issued at a discount to the market price. A shareholder not wishing to take up a rights issue may sell the rights.

scrip issue (or **bonus issue**) The capitalisation of the reserves of a company by the issue of additional shares to existing shareholders, in proportion to their holdings. Such shares are normally fully paid-up with no cash called for from the shareholders.

systematic risk Risk that can be diversified away.

unsystematic risk (or **market risk**) Some investments are by their very nature more risky than others. This is nothing to do with chance variations in actual compared with expected returns; it is inherent risk that cannot be diversified away.