Jargon Buster

Investment Challenge: The Basics

Key words for buying, selling and understanding shares

Keep this to hand while you research your companies and make your trades. For the words retailers use in their results, see the Retail Jargon Buster.

Money and markets	
Capital	Money used to invest or run a business
Saver	Someone who puts money aside instead of spending it
Lender	Someone who lends money and is paid interest for it
Borrower	Someone who takes money now and pays it back later, with interest
Interest	The price of borrowing money, usually a percentage per year
Share	A small piece of ownership in a company
Shareholder	An owner of shares, and so a part-owner of the company
Bond	A loan to a company or government that pays interest. UK government bonds are called gilts
Dividend	Part of a company's profit paid out to its shareholders
Stock exchange	A market where shares are bought and sold
Liquidity	How easily something can be bought or sold without moving its price
Risk	The chance of losing money, or of a result turning out different from what you expected
Buying and selling shares	
Share price	What one share costs at a given moment
Bid price	The price you get if you sell a share right now
Offer price	The price you pay if you buy a share right now
Spread	The gap between the bid price and the offer price. It is a cost of trading
Portfolio	All the investments one person or fund owns
Diversification	Spreading money across different investments so one bad result does less damage
Long position	Owning a share because you expect its price to rise
Short position	Betting a price will fall, usually by selling a borrowed share and buying it back later for less
Return	What you gain or lose on an investment, from the price change plus any dividends
Trend	The general direction of the price over time
Volatility	How much and how quickly a price moves up and down
People and roles	
Broker	Buys and sells for clients and earns a commission
Market maker	Always ready to quote a price to buy and a price to sell
Trader	Buys and sells shares, bonds or other assets
Fund manager	Invests other people's savings
Compliance	The team that checks the firm follows the rules
Regulator	The body that sets the rules and checks firms follow them. In the UK this is the FCA

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Junior Trader Enrichment Programme 26/27

Companies and their results	
PLC	A public limited company. Its shares can be bought and sold by the public
Market capitalisation	The share price multiplied by the number of shares. It tells you what the whole company is worth on the stock market
Revenue	The money a company takes from selling its goods or services, before any costs are taken off. Also called sales
Profit	What is left from revenue once costs have been paid
Earnings per share (EPS)	The company's profit divided by the number of shares
P/E ratio	The share price divided by earnings per share. A higher number means investors are paying more for each £1 of profit
Dividend yield	The yearly dividend as a percentage of the share price
Trading update	A short report on recent sales. It often moves the share price
Profit warning	When a company tells investors its profit will be lower than expected. The share price usually falls
IPO	Initial public offering. When a company sells shares to the public for the first time
Takeover	When one company buys control of another
Markets and the economy	
Index	A measure that tracks a group of shares, used to see how a market is doing
FTSE 100	An index of the 100 largest companies on the London Stock Exchange
FTSE 250	An index of the next 250 largest. Many of these companies earn most of their money in the UK
Bull market	A long period when prices are rising
Bear market	A long period when prices are falling, usually by 20% or more from their peak
Bubble	When prices rise far above what something is worth, then crash
Inflation	How fast prices are rising, usually measured over a year
Bank Rate	The interest rate set by the Bank of England. It affects what banks charge on loans and pay on savings
Recession	When the economy shrinks for two quarters in a row
Consumer confidence	How positive people feel about their money and the economy. When it is low, people usually spend less in shops

Found a word that isn't here? Note it down and ask at the next session. Good questions are part of the point.

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