Vocabulary

Rather than endlessly repeating the words 'rose' and 'fell', financial journalists use a large number of verbs and phrases to describe the movements of security prices. Classify the following sentences, according to whether you think the verb or expression means:

A to rise after previously falling **B** to rise a little **C** to rise a lot
D to fall a little **E** to fall a lot

1 ___ Volkswagen shares rocketed after the revelation that Porsche has upped its stake in the company to 74%.

2 ___ The Sensex index of the Bombay Stock Exchange crashed on Monday on fears of a recession in the US.

3 ___ Visa shot up yesterday on the NYSE on its first trading day, rising as high as $69 a share.

4 ___ The Footsie revived a little in London in the afternoon, gaining 30 points in late trading.

5 ___ After the strong gains of last week, Asian shares slipped on fears of a looming recession.

6 ___ In Milan, the S&P/MIB index plummeted, after the unions called for a three-day general strike next week.

7 ___ Leading shares were slightly weaker in Switzerland, the Swiss Market Index losing 20 points.

8 ___ Share prices recovered in Hong Kong today, the Hang Seng finishing up ten points.

9 ___ On the São Paulo exchange, the Bovespa Index advanced a little, up 12 points.

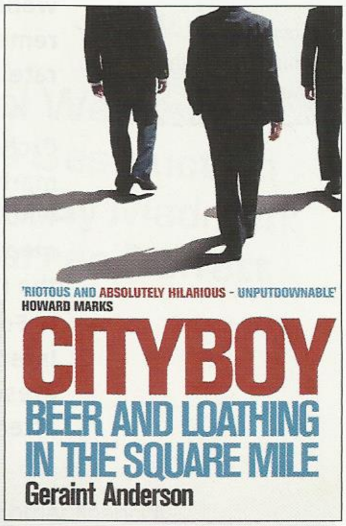
10 ___ Chinese shares jumped after a two-thirds cut in a securities trading tax.

11 ___ Even after the government bailout, Citigroup is continuing to plunge, now down to $1.95.

12 ___ Most shares were a little stronger in Madrid this morning, when the exchange reopened after yesterday's public holiday.

Reading: Hedge funds

Hedge funds are private investment funds for wealthy investors that trade in securities and derivatives, and try to get high returns whether markets move up or down. Read the following extract from Geraint Anderson's book *Cityboy*, which explains one of the major strategies of hedge funds, and answer the questions.



The rise of hedge funds began in earnest around 2001. By then stock markets had been in decline for around a year after the bursting of the tech bubble. With no end to the bear market in sight investors wanted to make returns that were not geared to the performance of the stock market. They wished to make an absolute return even if stock markets fell. They demanded what Cityboys, in their never-ending mission to confuse the general public, like to call 'Alpha' not 'Beta'. Hence, hedge funds became increasingly popular since, unlike conventional 'long-only' funds, they can 'short' shares. That is to say, they can sell shares they don't own by borrowing them off a conventional fund so that when the share price falls they make a profit by buying them back at a cheaper price. As the bear market continued cash began pouring into these funds. [...]

As these hedge funds multiplied and grew, investment banks had no choice but to prioritize them relative to their old, traditional long-only clients because some of these crazy guys *really* like trading shares. Whilst your typical pension fund might, on average, hold on to a share for a year or more I've seen certain hedge funds buy in the morning and sell in the afternoon. Hell, I've even seen buy and sell orders in the same stock within an hour! On certain days, one of the biggest hedge funds, GLG, has been said to be behind five per cent of all the trades in the FTSE 100.

1 What does 'the bursting of the tech bubble' mean?

2 Anderson calls the people working in the financial industry 'Cityboys'. What implied meanings does this word convey?

3 What is Anderson implying by 'their never-ending mission to confuse the general public'?

4 Explain in your own words how hedge funds make money by shorting shares.

5 Why did 'investment banks [have] no choice but to prioritize' hedge funds?

Vocabulary note

Alpha: A risk-adjusted measure of the active return on an investment, i.e. the return that exceeds normal compensation for the risk involved. A high value for alpha implies that a stock or fund has performed better than would have been expected given its beta.

Beta: A measure of the elasticity or relative volatility of a security: the rate at which its price moves up and down compared to the market as a whole.

Role play: Investing a client's money

Imagine that you are an asset manager, investing money for a client. In pairs or small groups, select ten different securities, and invest an imaginary €100,000 in them (or the equivalent in your local currency), dividing up the sum as you wish. Your client does not particularly want to take risks.

Choose several blue chips **– shares in large, well-established companies with a good reputation for quality and profitability – as well as two companies that have only been listed or quoted on a stock exchange for less than a year (this information can be found in the financial pages of newspapers and on financial websites). You can choose companies on any major stock exchange, but remember that if you buy stocks in foreign currencies there is a risk of exchange rate movements.**

A safe investment for part of the sum would be an index fund **or** tracker fund **or** exchange-traded fund (ETF) **that seeks to replicate the performance of an entire market (e.g. the S&P 500), so it won't lose (or gain) more than the market as a whole. Major banks sell shares in funds like these (similar to the bond funds mentioned in Unit 16). Another possibility, if you expected interest rates to fall in the near future, would be to include some** bonds **in the portfolio.**

Follow the progress of your portfolio in the financial press or on the Internet. Depending on the length of your course, select a date to make a short presentation reporting on the how well or badly the portfolio has done, and attempting to provide reasons or explanations for any price changes.