



FEATURE ARTICLE

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Jargon Busting

Historically one of the main complaints made about the financial services industry is our use of “jargon”. Unfortunately I am probably as much, if not even more guilty, than most in my use of financial “jargon” and therefore in this Feature Article I thought I would discuss some of the jargon that has been used during the current economic crisis and is used elsewhere in order to try and de-mystify some phrases for the uninitiated.

One phrase that has been used quite extensively in the financial pages over the last twelve months is “dead cat bounce”. In simple terms a “dead cat bounce” is a small recovery in a share price (or market index) following a steep fall, with the expectation that the recovery will then be followed by further falls in the share or index. The origin of the phrase is from the expression, “even a dead cat bounces if it falls from a great height” and in simple terms is the expectation that a recovery may not be sustained – although of course the recovery in markets that has been experienced since March 2009 certainly can’t now be described as a “dead cat bounce,” although many originally thought that it might be.

Another phrase that I recall seeing, especially as the height of the financial crisis with reference to the banks, was “trash and cash.” Trash and cash is where a rogue trader sells shares that he or she does not in fact own, which is known as “shorting”, and then circulates false negative rumours which results in the share price dropping sharply. The rogue trader then buys the shares back at a lower price than the price at which he, or she, originally sold them, thus making a profit.

As I said, many of the banks were rumoured to have been the victims of this practice, although the regulatory authorities have been unable to prove such concerns. Unfortunately catching those behind “trash and cash” is very difficult as in order to prosecute such individuals regulators need to prove,



with email or other documents, that the person, or persons, in question were aware of the company's real state of health but chose to misrepresent it for their benefit.

Indeed with reference to short trading you may recall that the situation became so bad that in September 2008 the FSA introduced a ban on short-trading in financial stocks. FSA chief executive Hector Sants said at the time that the move was to "protect the fundamental integrity and quality of markets and to guard against further instability in the financial sector". The ban also followed accusations that short-selling was responsible for driving the run on HBOS shares, which led to it agreeing a rescue deal from rival Lloyds TSB. The ban on short selling was lifted in January 2009.

Of course on the opposite side of the coin instead of "trash and cashing" a stock a trader could "pump and dump" or "ramp" a stock. Both "pump and dump" and "ramping" relate to rumours, such as false bid speculation, being circulated with the intention of pushing a stock price up with the intention of making a short term gain before the rumours are proved to be unfounded. Again of course this is illegal but very difficult to prove.

Another piece of financial jargon I sometimes see used is the term "kitchen sinking". Now if you are like me the phrase, the kitchen sink, leads to thoughts of washing up and in essence this isn't too far from the truth. "Kitchen sinking" actually relates to firms that are having a particularly poor time who decide to bring all of this bad news out into the open, including the proverbial "kitchen sink". This is usually done as part of their annual reporting to shareholders. Recently I have seen this phrase used with reference to certain banks as well as other companies which have taken the opportunity to disclose profit warnings or dividend reductions/cuts.

Finally one piece of financial jargon which many of you may have come across is "Market Value Adjuster" or "Market Value Reduction". This is a penalty applied to With Profits investments encashed early and is applied to protect the interests of remaining investors when market conditions have been poor. In simple terms firms use MVAs to try to ensure that With Profit policyholders who cash in their investments early do not disadvantage remaining policyholders.

It is however interesting to note that according to research carried out by Skandia, £40 billion of With-Profits bonds were sold at the peak of the market, between 1999 and 2002. This is interesting because many policyholders who bought at the peak will soon be able to take advantage of the fact that many contracts offered 10 year anniversary "No MVA" guarantees if the money is withdrawn on the anniversary. It may therefore be worthwhile checking, if you own a With Profits investment to see if you are entitled to what might be termed in many cases a one off "get out of jail free" card that, depending on your individual circumstances, it is appropriate to play. The best way to do this would be to talk to your Independent Financial Adviser.



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