

# **Globalization: the new financial products and investment methods. A brief account of the lexicon used in The Economist to define financial engineering.**

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## **Abstract**

The dismantling of commercial barriers and the ever-increasing presence of risk in the markets, in the context of a world open to global deals, has lead to the coinage of new terms to define state-of-the-art financial engineering. In the present study, the task is tackled of submitting an account of the main terminology used by prestigious financial review *The Economist*. The issues to be deployed will be the ones published through 2006 to date dealing with the subject of new investment methods, as they were used in an *English for Economics* classroom at a Spanish University. The purpose of such an account will be to clarify older methods like “hedge funds” and “derivatives”, as well as newer ones, like “private equity investments” and “leveraged deals”, providing clusters of worlds related to these two large areas. With this perusal, the ultimate aim to be accomplished will be to shed some light on these new families of financial words, for the better understanding of their usage and possible translation into Spanish, in the context of an *English for Economics* classroom in Spain.

**Key words:** specialised terminology, private equity, risk capital, venture capital, technical vocabulary, specialised/specific discourse

## **Introduction.**

The complex panorama of globalization has brought along new, sophisticated ways to invest. There is liquidity all around, it seems, as the Western world is living an unprecedented era of wealth. New markets emerge, criss-cross the world, mingle; companies disappear to re-emerge in the form of conglomerates, and the shape of money changes in tune. Orthodox banking is outdated and commodity trading pales in importance, as new, virtual, intangible financial products are the matter of trade and commerce. “Financial engineering” is the name given to the brain-racking activity of portfolio investors, brokers and unit trusts, in a global world where transnational

frontiers seem to fade away and the economic activity deals with increasingly complex tools.

*The Economist* publication has been faithfully mirroring the development and escalating entanglement of the investment panorama, from the now orthodox expansion technique of mergers and acquisitions (M&A), to the more complex “hedge funds”. Such a complexity actually harks back to the 40s, with the creation by Alfred Wisnlow Jones of a phenomenon he called “hedge funds”, investment transactions which were meant to eliminate or decrease market risk. However, hedge funds have currently evolved into something that does not resemble their original version, as they really involve a great deal of monetary peril in the existing panorama of finance. During these recent years, still other, much more state-of-the-art financial devices, have appeared under the umbrella term of “risk capital” (erroneously mistaken with the expression “venture capital”), which has in turn developed into the set of contrivances reunited in the general phrase of “private equity” that I will consider below..

The prestigious financial periodical under analysis here seems to have covered –from 1997 to the present– in 240 issues, these and other increasingly complex phenomena in ten years of bi-monthly publications. For the sake of the provision of present-day, recent data, and brevity -as *The Economist* has published no less than a total of 747 articles on hedge funds, plus 1500 on private equity phenomena- only those articles in the 2006-2007 issues- will be accounted for and discussed in our paper. My ultimate aim will be the clarification of some of the manifold concepts in the area, as well as and the provision of some, I hope, useful guidelines for both the trainer of *English for Economic Purposes*, and the translator of financial texts.

### **Reading *The Economist* in class**

The discourse used by *The Economist* is directed to both a specialist and semi-specialist audience at large, laypeople and experts, who need to keep up with economic developments. It is also the result of a typical Anglo-Saxon operational, pragmatical style of thinking, stressing consequences and results, rather than processes, and concentrating in decision-making and problem-solving techniques. Such pragmatic approach of the Americans is very different from the European rationalistic tradition of thought (Martinedale, 1960:91 in Steward and Bennet, 1991), which emphasises theory and organic concepts instead, favouring more obscure and rhetorical discourse in specialised epistemology at large. As a consequence, the style of this prestigious review, considered by many as the *Bible* of present-day economic thought and transmission (Alcaraz and Hughes, 1993), is very dynamic, tremendously vivid, even colloquial at times. It is also very metaphorical, in the deployment of the most colourful images to make complex financial mechanisms cognitively accessible to the laypeople who partake in the economic game (Mateo, 2007).

All these factors make the usage of the publication essential in the class of EEP (*English for Economic Purposes*), as its style is now the paradigm for every prominent periodical on Economics and Finance, and the news items it conveys are a most likely reflection of the latest state of affairs in the area. It is also, from the discursive point of view, an easy task for the linguist, used to deal with metaphor and imagery in her training, as the

deciphering of the text is much of a literary task. Nevertheless, new financial procedures have to be understood accurately and in their full complexity by specialists (Mateo, 2007), and the help of the teacher in the disentanglement of literary figures normally results in the successful attainment of reading comprehension skills, in a medium-term basis.

### **Specialized terms and their role in EEP**

According to Cabré (2004:a, 2004:b), specialized languages or, rather, specialized discourses, are functional registers of which the main feature is a specific set of topics conceptualized in a very specific way. These registers are due in a professional communicative context where the speakers are specialised (experts or their “translators”, i.e., their intermediaries in the communicative field) and carry a mainly informative communicative function. Cabré stresses the idea of *conceptual control*, whereby experts decide upon the conceptual forms of their field and share them with their peers. In fact, it is not the topic, but the conceptualization itself as shared by a due specialised community, the factor that actually marks the special or specific character of texts. From the linguistic point of view, though, it is a fallacy to presume that only experts manage “both the most suitable expression resources and the most effective communicative strategies”, the resources consisting of a specialised lexicon or specific terminology, specific vocabulary collocations or phraseology, and the textual products of the profession (Cabré, 2004b: 95, 96 my translation). In fact, experts most often convey the texts and terminology of the profession without the consciousness to be doing so, and it is the task of the applied linguist to recover the awareness of the set of

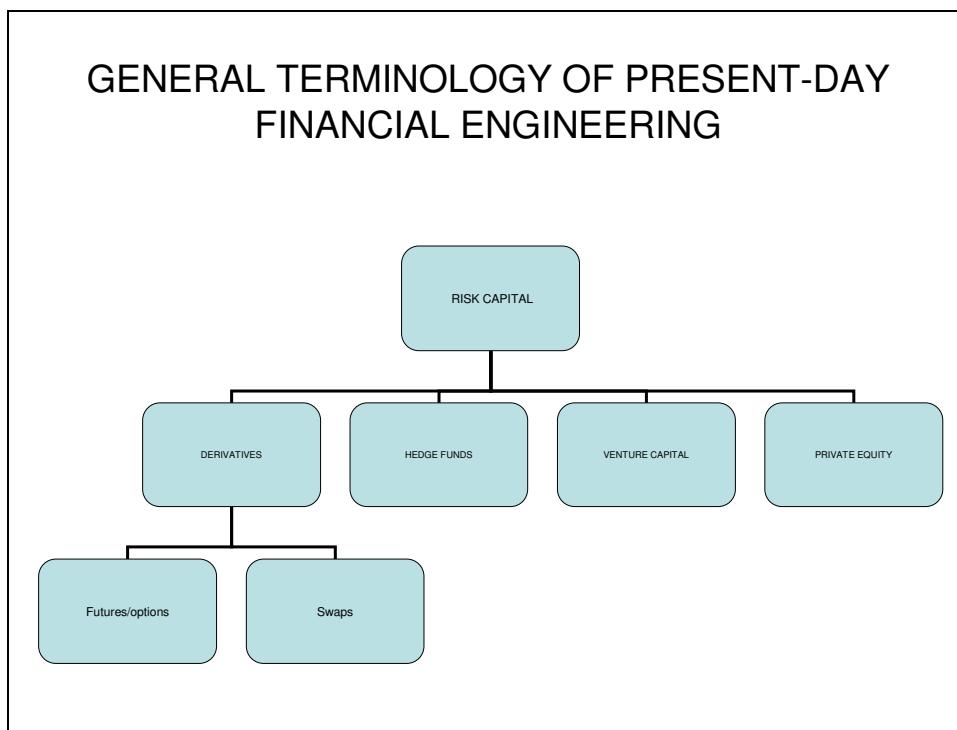
textual genres and specialised terminology of a particular profession, normally in the area covered by programmes on Languages for Specific Purposes.

Incidentally, terminology is a particularly land-mined area, as it contains not only very specific words or terms of art (the most “visible” part of lexical resources), but also a semi-specific lexicon. Semi-specific terms, or “sub-technical words” (Cabré, 2004b: 100), present polysemical features and subsequently partake of both a general sense -in the domain of general language- and of a specific sense, a different process of “activation” taking place in specific discourses. These terms are thus especially thorny for the sake of their potential ambiguity. According to Cabré, though, “the determination of sense depends from the verbal or situational context” and “according to the communicational situation in which it is used, it either activates or not specialized value” (Cabré and Adelstein, 2004: 97,98).

Nevertheless, in the area of Economics, as Vangenhuchten points out (2003: 117), there are no closed criteria to establish technical lexicon, this being built in accordance to the thematic area to be dealt with and representing the conceptual field of the professional world it belongs to. As I said above, the specialised community determines conceptual borders, but, I may add, awareness of those borders is very often achieved by LSP professionals, trained in the sensitiveness towards linguistic forms and hues, as well as meaning nuances. Actually, through the process of the current experiment students confessed to have learnt about the existence of the new financial phenomena described below only in their EEP class.

### **Some new terms for a new global economy.**

In the process of analysis of the 2006-2007 issues on the current financial engineering phenomena, the EEP students were asked to read the texts and answer some questions as to the general nature of the text and their more specific implications in point. There was a previous research on the part of the EEP trainer as to their meaning and possible translations into the TL, Spanish, of which the findings were presented in class in the form of tables and diagrams. In a subsequent process, the students were required to search the web in English and Spanish again, to confirm the status and conceptual world of the key concepts in the texts, as originally presented by the teacher.



**Diagram 1. Basic root terms.**

An initial clarification of the general terms deployed in the present panorama of financial engineering devices is shown in Diagram 1 above. Since the market upsets of the 80s and 90s, the phenomenon of risk has turned into a commodity, a tool of the

trade, instead of a hazard to be avoided. I translate here the term “risk capital” into Spanish as *capital de riesgo*, a term that embraces a wide range of activities such as “derivatives”, “hedge funds”, “venture capital” and “private equity”. The first two phenomena, being relatively revolutionary in the Spanish landscape yet, belong to more traditional investment techniques, globally speaking. In fact, “derivatives” are financial instruments derived from some other asset<sup>1</sup>, whereby market participants enter into an agreement to exchange money, assets or some other value at some future date based on such underlying asset. Futures/options (*futuros y opciones*) and swaps (*swaps* or *suaps* in Spanish) are the most widespread examples of derivative trading, the most frequent assets traded being commodities, cash flow, exchange and interest rates, and equity or bonds. “Hedge funds”, in their turn, are slackly regulated investment funds that characteristically take high risks to earn high returns. They are still translated as *fondos de cobertura* in Spanish, as originally they were intended to cover from risk-generating investments, but the lack of transparency and the billion-dollar loses they produced in September 2006 have been the subject of much argument on their safety. At the moment, they are mostly translated as *instituciones de inversión alternativa*, instead.

Both “private equity” and “venture capital” are more novel creations; they are frequently mistaken as the same kind of phenomenon (their translation being uniformly wrong as *capital-riesgo*). On the contrary, there is a clear distinction between both. “Venture capital” in the USA focuses its activities in early-stage entrepreneurial projects (*capital-riesgo*); in Europe, though, it is used, like “risk capital”, to cover all the stages. Contrarily, “private equity” concentrates in investment activities in consolidated companies (*capital-inversión*)<sup>2</sup>. In fact, it is a form of financing used to

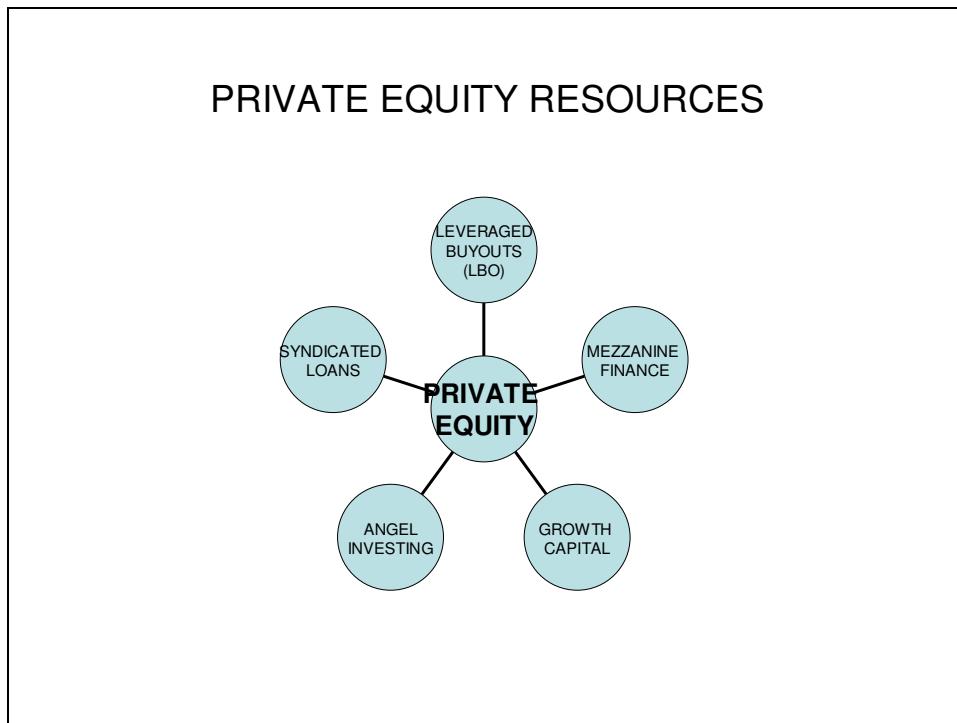
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<sup>1</sup> See <http://wikipedia.org/wiki/Derivative>, among others

<sup>2</sup> See <http://ec.europa.eu/translation/bulletins/puntoycoma/61>, among others

buy stock which is not freely tradable (i.e., not listed on an exchange) in order to obtain a major stake in the company with a view to take it over and control its management<sup>3</sup>.

We elaborate on the different versions that private equity takes in Diagram 2 below.



**Diagram 2. Private equity resources.**

Categories of “private equity” investment include the following:

1. “leveraged buyouts” or “bootstraps”, or LBOs (*LBO* or *apalancamiento* in Spanish), when a financial sponsor gains control of a majority of the equity through the use of debt;
2. “mezzanine finance” (*financiación de entresuelo* or *mezzanine* in Spanish), unsecured high-yield stock that represents a claim on the company’s assets;
3. “growth capital” (*capital de crecimiento*), Money borrowed which can be flexible used for a number of corporate purposes;

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<sup>3</sup> See <http://www.bvca.co.uk>, for instance

4. “syndicated loans” (*préstamos sindicados*, or *préstamos concedidos por otras entidades bancarias*), large loans in which a group of banks work together to provide funds for a corporate borrower, and
5. “angel investors” (*inversores privados* or *ángeles*), individuals who provide capital for a start-up of a company with their own money.

All of these are examples of the variety of forms broadly covering any type of equity investment in an asset in which the equity is not freely tradable at the Stock Market.

### **Conclusions.**

The intricacy of the new-fangled concepts of our contemporary financial landscape often defeats their comprehension by both the EEP teacher and the accomplished economist-to-be, even if it also means a decisively motivating factor for both. The challenge, though, is mostly for the trainer, whose expertise as a translator and EEP specialist is put at stake, and who should at least aid and enhance the students' comprehension of the texts and concepts in them, if not provide a financial expert's description.

Careful preparation of the texts through the literature at hand, including both printed periodicals and digital aids, is a necessary help, and often requires long time and concentrated effort. This paper presents some of the results of such an effort.

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**Internet resources:**

Economist.com: <http://www.economist.com/index.html>

Diccionario Inglés - Español de Términos Financieros: <http://www.spanish-translator-services.com/espanol/diccionarios/finanzas-ingles-espanol>

Finance Glossary: <http://www.finance-glossary.com>

**Terminología Bursátil:**

<http://www.geocities.com/wallstreet/floor/6685/Terminologiabursatil.html>

Wikipedia: <http://wikipedia.org/wiki>

Puntoycoma: <http://ec.europa.eu/translation/bulletins/puntoycoma/61>

BVCA Investments: <http://www.bvca.co.uk>