

Glossary of Terms

Active management

When investments are run by a manager who chooses investments to buy and sell in an attempt to outperform the market.

Alpha

Measures the amount that the investment has returned in comparison to the market index or other broad benchmark that it is compared against.

Asset class

A broad type of investment. Bonds, shares, and property are all examples of asset classes.

Bear market

A period where share prices are decreasing strongly for an extended period of time.

Beta

An indication of the degree of price volatility a stock, a fund, or a stock portfolio has in comparison with the market as a whole.

Blue Chip

Well recognised, established and financially sound companies that are public traded.

Bonds

An investment where an investor lends money to a government or company and is paid a regular income in the form of interest – called the “coupon” – for a set period of time, after which the loan must be repaid to the investor. Bonds issued by companies are called corporate bonds; those issued by governments are called government bonds.

Bull Market

A period where share prices are rising strongly for an extended period of time.

Corporate Bonds

Bonds issued by companies in order to raise financing. Corporate bonds are generally higher risk relative to government bonds, but to compensate have a higher yield.

Cost Averaging

A process that involves making regular periodic investment to reduce the overall impact of price volatility.

Coupon

The regular interest payment from a bond

Developed economy

A well-established and stable economy. Developed economies typically have higher income per person, well established rules of law, formal stock market regulation, openness to foreign ownership, generally free movement of capital and efficiency of market institutions.

Diversification

Investing in different asset classes, regions, and market sectors to reduce investment risk and to reduce the risk of damaging a portfolio's performance by the poor performance of a single asset class, region, or sector.

Dividends

Cash payments from a company's earnings given by companies to their shareholders. These include interim dividends (paid six months through a company's financial year) and final dividends (paid at the end of the year).

Emerging markets

Capital markets associated with countries undergoing development which have yet to reach maturity.

ESG

Environmental, Social, Governance. A method of analysis that incorporates additional humanitarian and sustainability factors into consideration when assessing which companies to invest into.

Equities

Another word for the stocks or shares in a company. A stock is a share in the ownership of a company.

ETF

Exchange Traded Fund. Funds that can trade intraday and generally tracking a specific index.

Financial regulation

Laws and rules that govern what financial institutions can do with the aim of protecting investors, maintaining orderly markets, and promoting financial stability.

Fixed Income

A phrase typically used for bonds referring their coupon flow, albeit bonds can also have varied coupons.

Frontier market

Capital markets associated with countries that are economically less developed than emerging countries.

Fund manager

The expert who picks the assets that make up an actively managed fund.

FTSE

The Financial Times Stock Exchange, a company that specialises in index calculation.

Gilts

Another name for fixed-interest securities (bonds) issued by the United Kingdom Government.

Growth fund

A diversified portfolio of stocks with capital appreciation as its main goal: with little or no dividend payouts.

Income fund

Any type of fund that seeks to provide regular income for shareholders through dividends or interest payments.

Income investing

An investment approach that aims to generate higher income than a more balanced approach.

Index

An aggregated measure of the value of a basket of investments representing sectors, regions etc.

Investment trusts

A way of pooling your cash with other investors in the same way as an OEIC or unit trust (see below). Although investment trusts are set up as companies that trade on the stock exchange, investors buy and sell the shares in the same way as other shares. Shares prices are determined by the market and may be subject to a discount or premium over the value of the trust's assets.

Macroeconomics

The study and analysis of whole economies, looking at large scale or general economic factors.

Growth or Value Style

The bias to which a fund manager invests where value refers to cheaper investments and growth refers to investments with higher potential growth rates.

OEIC

Open ended investment company – one of the most common types of funds. These funds, often presided over by a fund manager, allow you to pool your money with other investors and invest in a mix of share and bond sectors.

Passive management

Passive managers use tracker funds to replicate the performance of an index.

Return

The difference between the starting values and ending values of an investment plus any distributions during the interim.

Risk Management

The procedure of identifying and forecasting potential financial risk and putting measures in place to avoid them or minimise their impact.

Smoothing

A process that is aimed at reducing the volatility of returns. Certain types of investment can do this by holding back some of the profit from good years to use in years when performance is lower.

Strategic Asset Allocation

The process that determines the different asset class distribution within an investor's portfolio. The SAA is closely associated with an investor's risk appetite and return requirement.

Stock market

Organised and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of supply and demand.

Tactical Asset Allocation

An active management portfolio strategy that shifts the percentage of assets held in various categories to take advantage of market trends or strong market sectors. This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the marketplace.

Tracker

A fund such as an ETF that aims to replicate the performance of an index.

Unit trust

Another common type of fund used by investors, increasingly being replaced by OEICs (see above).

Yield

The amount of income received for an investment, expressed as an annual percentage of the price of an investment. A higher yield may provide a higher income but may also suggest a higher risk.

Treasury Bonds

Another name for fixed-interest securities (bonds) issued by the Government of the United States of America.