MONEY TO THE MASSES

A-Z INVESTMENT JARGON BUSTER

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Active investing:

An active approach to investing involves the investment manager making decisions based on their knowledge of the markets. This could involve deciding on the weight of different asset classes within the fund, as well as choosing the underlying holdings.

Asset allocation:

The proportion of your money invested in different investment types - also known as asset classes - including equities, bonds and cash.

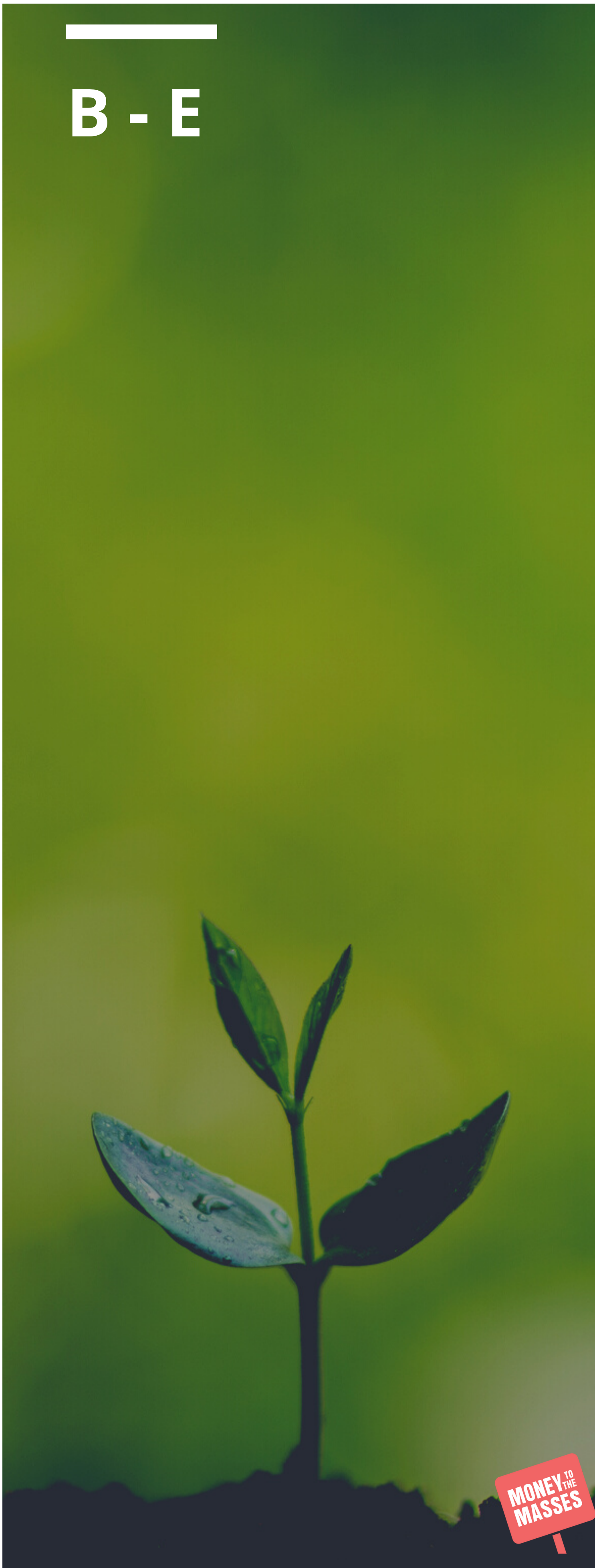
Asset class:

Investments are divided into a number of categories, known as asset classes. These include equities, bonds, property, commodities and cash.

Bear/bull market:

A bear market is a general fall in the stock market over a period of time, while a bull market is a rise in the stock market. Someone can be described as being “bearish” or “bullish” depending on whether they think the market is going to fall or rise.

B - E



Bonds:

A bond is used as a way for a company or government to raise money. In effect, investors who buy a bond are lending the issuer money, which will be repaid on an agreed date. In return they receive interest on a regular basis until the end of the term.

Corporate bonds:

A bond is issued by a company to raise money. The investor pays a set amount and is repaid on an agreed date, while also receiving regular interest payments. If the company goes bust, there is a risk the investor could lose money.

Compounding:

When an investor earns interest on their interest or returns on the returns, rather than just on the initial investment. If you don't withdraw money and let it accumulate over time, this can have a powerful effect on the overall investment return you will receive. Investment returns aren't guaranteed and the value of your portfolio can go down as well as up.

Diversification:

Achieving a good level of diversification in your investment portfolio can help reduce risk and maximise returns. It reduces the impact if a particular asset class or type of investment falls in price. You can diversify by asset class, but also by geographical or industry sector exposure, the size of the companies you're invested in or by currency.

Dividends:

Some companies make a payment to shareholders that is a proportion of their profits, typically once or twice a year. This is known as a dividend.

Equity:

Another name for a share in a company.

Fixed income:

Fixed income is an investment approach that prioritises capital preservation and income and mainly focuses on government and corporate bonds.

Fund:

A single product that provides a way of investing in a number of different shares, bonds or other investment types in one place. The term is often used to describe OEICs, investment trusts or ETFs.

Government bonds/gilts:

As with corporate bonds, government bonds - also known as gilts - are used to raise money by investors "lending" the government issuing the bond an amount of money, which is repaid at an agreed date, with regular interest payments made. They are generally seen as being low-risk investments, although there have been some examples of governments defaulting, so they aren't completely risk free.

Investment trust:

Investment trusts are public limited companies that invest in other companies. They have a limited number of shares that investors can buy, which means they are "closed ended".

ISA:

An individual savings account is a tax-efficient way to save money. You can contribute up to £20,000 into an ISA each tax year and you won't have to pay tax on interest or capital gains. The annual contribution limit can be spread across a cash ISA, stocks and shares ISA, Innovative Finance ISA and a Lifetime ISAs. There is a maximum Lifetime ISA contribution of £4,000 for each tax year. In addition, it is also possible to open a Junior ISA for a child which has an annual contribution limit of £9,000.

OEIC:

An open-ended investment company is often just referred to as a fund. A fund manager invests the pool of money from the investors in accordance with the fund's stated investment mandate.

Passive investing:

Passive investing involves tracking an index or other pooled investments. It is a relatively low-cost way of investing.

Stocks/shares:

Stocks and shares are essentially the same thing. It is part of a company that you buy on a stock exchange and means you become a shareholder in that company.

Unit trust:

A unit trust is a collective investment and is often referred to as a fund. It works in a similar way to an OEIC except that with a unit trust investors buy units rather than shares in the fund. The value of these units depend on the assets that the fund invests in. It is a cost effective way for investors to invest in a range of asset types.

Volatility:

Volatility is a measure of the amount the price of a stock or assets goes up and down over time. If an investment is highly volatile it is generally viewed as being higher risk. A low volatility option is seen as lower risk, with less dramatic price movements.

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