Glossary

Active management – An approach to investing where capital is allocated according to the judgment of the investor or fund manager(s). The active investor aims to beat the returns from the stockmarket or specified index/sector, rather than to match them. (See also Passive Management)

Asset – Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset Backed Security (ABS) – Securities backed by the income stream of income producing financial assets. These assets enable investors to gain exposure to instruments they might not otherwise be able to gain access to, such as loan repayments.

Asset class – Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate. (See below for specific category definitions)

Benchmark – A standard against which the performance of a security, mutual fund or investment manager can be measured.

Bond – A debt investment i.e. a loan, in the form of a security, usually issued by a government or company. These normally pay a fixed rate of interest over a given time period, and at the end of which the initial amount borrowed is repaid.

Bull Market – A market where prices rise consistently over a long period of time. Investors are referred to as 'bullish' if they believe prices are going to rise.

Bear Market – A market where prices fall consistently over a long period of time. Investors are referred to as 'bearish' if they believe prices are going to fall.

Buy-side – The asset management firms that represent individuals and institutional investors.

Cash – Legal tender or coins that can be used in exchange goods, debt, or services. Sometimes cash can also include the value of assets that can be converted into cash immediately, as reported by a company.

Commodities – An asset class which comprises physical assets such as oil, base and precious metals and agricultural produce.

Credit Rating Agency – An institution that assigns credit ratings to debt issuers, such as companies and governments. Standard & Poor's and Moody's are well-known examples.

Credit Rating Agency – Agencies which assess the credit worthiness of a borrower in general terms or with respect to a particular debt or financial obligation. A credit rating can be given to any entity that seeks to borrow money e.g. institution, individual, government.

Deflation – A decline in prices, the opposite of inflation.

Derivative – An instrument whose value depends on the performance of an underlying security

Dividend – The portion of company net profits paid out to shareholders.

Emerging economy or market – Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities – Share of ownership in a company.

Exchange Value – The quantified worth of one good or service expressed in terms of the worth of another.

Fixed income investment – An investment that provides a return in the form of fixed periodic interest payments over a given time period, and the eventual repayment of the initial investment at maturity.

Gilts – Fixed income securities issued by the UK government.

Government Bonds – Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Hedge Fund – An alternative investment vehicle available only to sophisticated investors, such as institutions and individuals with significant assets. Hedge funds target absolute returns and can invest using a broad array of strategies ranging from conservative to non-traditional investment strategies.

High Yield Bonds – Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality (i.e. higher-rated fixed income securities) but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of security's life.

Index Fund – A passively managed fund that tracks a benchmark.

Individual Savings Account (ISA) – A tax-free savings account. There are two main types, a Cash ISA and a Stocks and Shares ISA. You can put money into a Cash ISA and you don't pay tax on any interest you receive. Invest in a Stock and Shares ISA, and you don't pay tax on any further dividends or capital gains.

Inflation – Describes conditions in which there have been a consistent rise in prices.

Institutional Investor – A large investor such as a pension fund, insurance company or charity.

Interest – The return earned on funds which have been deposited, loaned, or invested.

Liquidity – The availability of liquid assets to a market or company. A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

Long Term Investment – Holding an asset for an extended period of time. Depending on the security, a long-term asset can be held for as little as one year or for as long as 30 years.

Macroeconomics – Refers to the big trends in an economy as a whole, such as inflation and unemployment, while microeconomic forces refer to the factors affecting individual situations or companies.

Market Risk – The risk which is inherent within an asset class or broader market. This risk cannot be eliminated by diversification.

Maturity – Maturity refers to a finite time period, at the end of which the security will cease to exist and will be repaid.

Microeconomics – The branch of economics that analyses the market behaviour of individual consumers and firms in an attempt to understand the decision-making process of firms and households. It is concerned with the interaction between individual buyers and sellers and the factors that influence the choices made by buyers and sellers. In particular, microeconomics focuses on patterns of supply and demand and the determination of price and output in individual markets (e.g. coffee industry).

Multi-asset Investment – A multi-asset class investment would contain more than one asset class, thus creating a group or portfolio of assets.

Passive Management – The opposite to active management. An approach to investing where capital is allocated according to the stock or sector weightings of an index. Passive management is also referred to as 'indexing' or 'tracking'.

Portfolio – A grouping of financial assets, such as equities, bonds and cash equivalents. Portfolios are held directly by investors and/or managed by financial professionals.

Real Estate – An asset class comprising buildings and land i.e. property.

Retail Investor Individual investors who buy and sell securities for their personal account, either directly or through third parties such as independent financial advisors and banks.

Security – A security is a negotiable financial instrument that represents some type of financial value e.g. bond, share.

Sell Side – The area of the financial industry involved with the creation, promotion, analysis and sale of securities. Sell side individuals work to create and service stock products that will be made available to the buy side of the financial industry.

Short Term Investment – Investments that are held for or mature in a short amount of time. Depending on the asset class, this can vary but is typically 12 months or less.

Qualitative Analysis – Examining the non-numeric characteristics of an investment, such as management and process.

Quantitative Analysis – Examining the statistical and numerical relationships between securities and their returns.