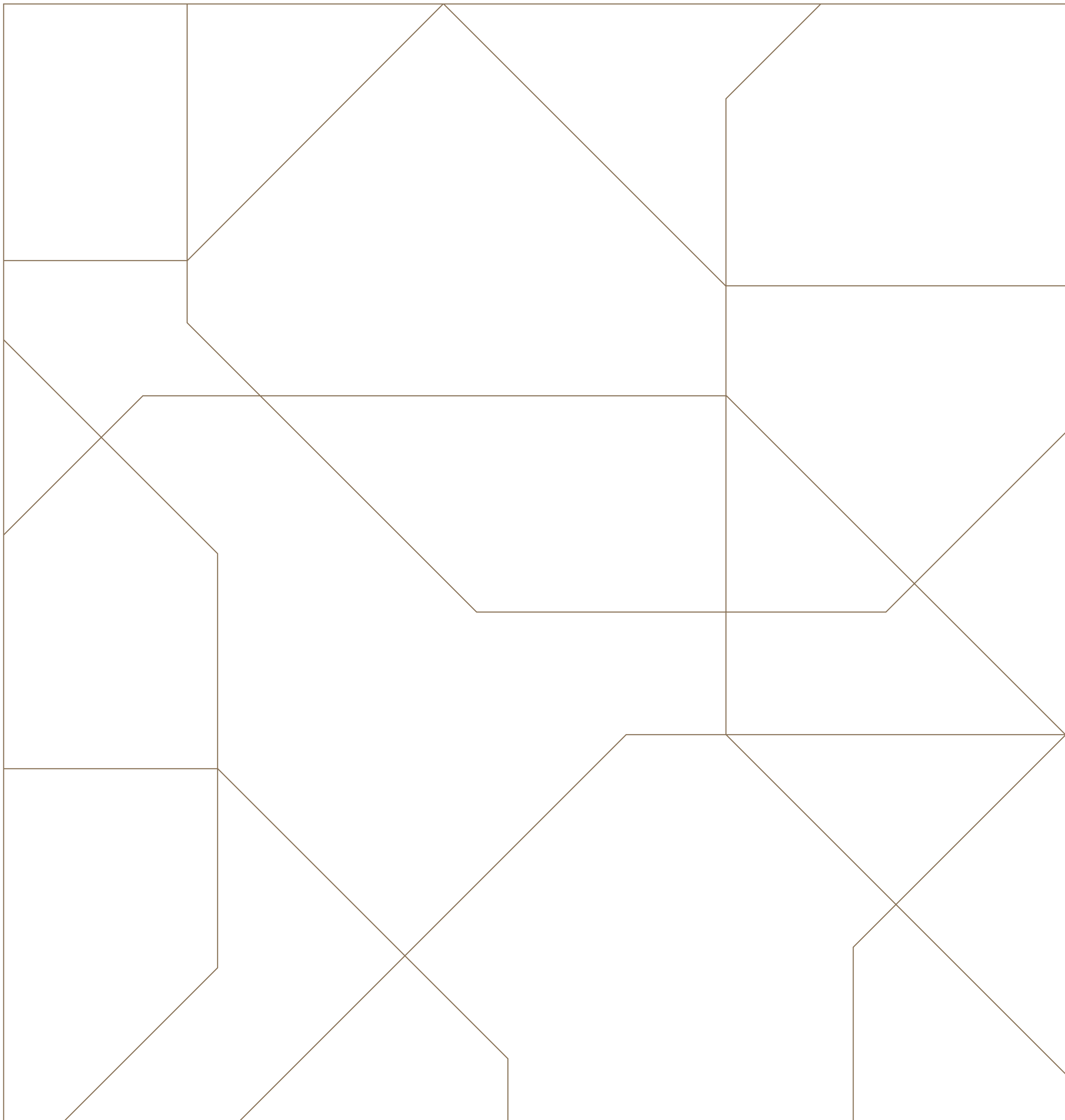
Introduction to Investing

Investing is for everyone. We have put together this guide to help newcomers and seasoned investors alike navigate the investment process.



FORSYTH BARR

What is investing?

Investing is about putting money into an asset with an expectation of gain. Investing is for everyone, at every stage of their life.

A basic form of investing is earning interest on a deposit at a bank. A more complex investment may be to purchase a diversified selection of local and overseas shares.

Not all investments are equal: values will vary and may go up or down depending on the current return and perceived risk relative to other investments.

This guide

This guide looks at investing options and how you might approach the investment process. You'll need to understand some basic principles of investing and understand which type of investment suits you.

Forsyth Barr

Forsyth Barr has been helping private investors to make sound investment decisions for over 80 years. All of our Investment Advisers are qualified and will follow a set of principles and a defined approach to investment as follows:

- investing is a personalised discipline — it is not one size fits all. Before making any decisions we work with you to determine your goals and circumstances
- we develop appropriate investment strategies taking into account your risk tolerance and investment time horizon
- appropriate, ongoing management and reporting
- investment strategies regularly reviewed

What next?

This guide discusses the following topics:

- Things to consider before investing
- Types of investments
- Risk and credit ratings
- Creating a portfolio
- Ongoing management
- The Forsyth Barr approach

Things to consider before investing

Investment is a lifelong journey — poor decisions at the start may cause disappointment. Before jumping in, carefully consider your options.

You are not alone in this journey — help is available from many sources. Make sure you talk to friends, family and industry professionals before making any investment decisions.

Getting started

Today's investor faces many choices. Investments can be in shares, bonds, property, bank deposits, domestic or international assets, directly invested or via managed funds. Investors should also consider superannuation. A further complication is the question of leverage and derivatives.

There are many possible options — it can be hard to know where to start and there is a risk of making poor decisions if you are not properly informed.

Taking stock

Before making any investment it is best that you undertake a thorough enough review and analysis of your goals and circumstances. Take some time to think about and note down the following:

Investment goals: What goals do you have? Why do you want to invest? Are you saving for retirement, do you want to be mortgage free, have you planned an international holiday, or are you saving for your child's education or to pass on to your heirs?

Income needs: Given these goals, what are your estimated current and future income needs? You need to consider your age and also your dependents' ages. How long do you plan to be working? What other things need to be considered: mortgage payments, annual holiday, a new car? Your income needs will be the prime input into an investment strategy makeup.

Timeframe: Over what timeframe are your goals planned? When do you need to withdraw money? Do you need a regular income flow over a set timeframe or do you need a lump sum on a specific date? Generally, longer term investments are able to ride out the usual fluctuations in market and investment values.

Risk appetite: Honestly review your appetite for risk — the 'sleep at night' factor. Very few investments are guaranteed. Would you be prepared to lose a large proportion of the funds invested? Could you lose some if you knew a percentage was guaranteed? Do you need instant access to your investments?

Investment structures: Is the investment personal or for a family trust? Do you wish to take a hands-on approach or would you like someone else to manage the process for you?
Do you have any existing investments, for example an employee KiwiSaver scheme?

These are just some of the issues to consider before investing. Once this analysis process is complete, you will need to consider what types of investment best suit your circumstances.

Do you require assistance?

You can review this information yourself and make your own investment decisions or you can engage an Investment Adviser to help you. A good Investment Adviser will be experienced in asking the right questions and will guide you through this process.

Choosing an Investment Adviser

It is important that you take time to select your Investment Adviser. This will be an important, long-term relationship. You should shop around until you find an Investment Adviser you feel confident with. Friends and family with experience may be able to offer a recommendation. You can receive investment advice and services from a range of providers. A list of the services Forsyth Barr offers for private clients is in the table below.

What an Investment Adviser must tell you

By law an Investment Adviser must give you a written 'Disclosure Statement' before they give you any advice and before you pay them any money. It must show the date it was prepared and give the Investment Adviser's contact details. The information in the Disclosure Statement will help you decide whether or not to take their advice.

What is in the Disclosure Statement?

By law, the information in the Disclosure Statement must answer each of the following six questions about the Investment Adviser:

- What is their experience and qualifications?
- Do they have any criminal convictions?
- What types of investment do they advise on?
- What fees do they charge?
- What interests do they have that could influence their advice?
- What relationships do they have that could influence their advice?
- And, if they are a sharebroker, what their procedures are for dealing with your money.

Activity		Forsyth Barr Service
Transacting Investments	✓	Investment Transaction Service
Investment Advice and Transactions	✓	Investment Advisory Service
Investment Advice and Transactions, Administration, Portfolio Monitoring	✓	Premium Advisory Service
Portfolio Management, Investment Planning, Administration	✓	Private Portfolio Management
Savings and Regular Contributions	✓	Summer KiwiSaver scheme, Forsyth Barr Investment Funds (PIE funds), Cash Management

Activity		Services not provided
Legal, Trust, Estate Planning Services	×	Refer to your lawyer
Accounting, Tax Advisory Services	×	Refer to your accountant/tax adviser
Personal, Property, Health Insurance	×	Not provided
Household Budgeting, Cashflow Management, Financial Planning	×	Not provided

Upon request, and where appropriate, your Investment Adviser will work in association with legal and accountancy professionals or any other professional parties, providing them with investment information or acting on their instructions (where authorised by you).

Types of investments

Having taken stock of your circumstances, the next step in developing a strategy involves planning the appropriate asset allocation. This means deciding how much of your funds are invested in each of the different asset classes.

Asset classes

Broadly speaking, investment assets fit into four classes of investment:

- short-term deposits (cash)
- bonds (fixed interest)
- property (typically listed property securities)
- shares

In addition there are alternative investments, such as derivatives or commodities. Within each asset class there are investments to suit different kinds of risk, duration, returns and liquidity. There are also different ways to invest.

Short-term deposits (cash)

Bank savings accounts

The simplest kind of short-term (or cash) investment is a bank savings account. Returns are low compared to other investments. You can withdraw part or all of your money whenever you want (total liquidity). This makes them ideal for short-term savings goals, or as a place to keep any emergency fund. Because of the lower return they are not a good investment option for medium or long-term goals.

Bank fixed term investments

This form of investment is a lump sum for a set period (a fixed term), usually three, six or 12 months. Your money is locked away during the fixed term. In return, you get a higher interest rate than an instant access savings account. You may be able to withdraw your money early, but you will get a lower rate or be charged a penalty. These can be a good short or medium-term investment, depending on interest rates offered.

Bonds

This form of investment is sometimes also referred to as fixed interest (or fixed income), bank bills and Government stock. A bond is like an IOU issued by a Government or a company. You give the issuer money for a certain period, and they promise to pay a certain interest rate and re-pay you on maturity of the investment. Bonds lock your money away for a set period of time, but they can sometimes be traded. Generally, they are not a good short-term investment for those seeking liquidity at short notice. However many bonds are now traded on the stock exchange, which provides liquidity.

Often there will be a minimum investment size. To make bonds more accessible, it is also possible to invest in bonds through a managed fund. Managed funds will have a lower minimum investment size and can be traded.

Company debentures are a kind of bond. These are not usually able to be traded. Finance companies come in many shapes and sizes, and the risk of their investments and their interest rate varies as well. Government stock is another kind of bond. Risk on this kind of bond is usually very low — sometimes termed 'risk free' — so the interest rate offered is therefore low relative to other bonds.

Property

For most New Zealanders, their home is their largest asset. People who want to acquire their own investment property generally have to rely more on their own knowledge and judgement. It's therefore important to read publications and attend property investment seminars before making any decisions.

Issues you need to consider include the location and type of property (eg city or rural, residential, retail, warehouse or special purpose property such as a farm or motel), financing and taxation arrangements, maintenance requirements, lease terms, tenants and record keeping.

Owning a property is like operating a small business — rushing in without doing your homework can lead to disaster or at least a risk that you'll lose some of your capital.

If you want to invest directly in property, remember the importance of duration, risk, diversification, returns and liquidity.

For an indirect property investment, you can invest in a fund that invests some of your money in property assets – not just a single property. This could be by way of ownership of rented buildings or by way of an investment in shares of public companies which specialise in property ownership (listed property companies).

This option gives you the many advantages of property ownership without having to find the property and do the hands-on management yourself. This type of indirect property investment also makes it easier for the average investor to receive the benefits of diversification.

Shares

By investing in shares in a public company listed on a stock exchange, you get the right to share in the future income and value of that company. Your return (and loss) can come in two ways:

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dividends paid out of the profits made by the company

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capital gains/losses made because you are able to sell your shares for more or less than you paid. Gains may reflect the fact that the company has grown or improved its performance or that the investment community see that it has improved future prospects

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Any loss or gain in value is said to be 'realised' when you sell the shares. If you hold onto them the loss or gain is 'unrealised'. The price of shares in any individual public listed company can vary from day to day. On any day some shares may go up in value and some down, depending on how investors view the prospects of each company.

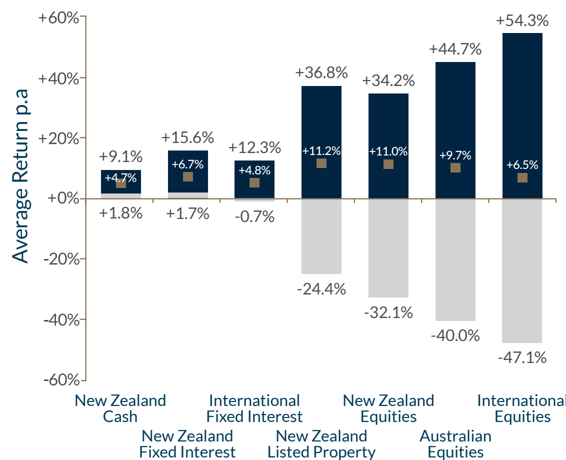
There are many complex factors which influence share prices on a daily basis and no one can accurately predict what price listed shares will be in the future. Overall the long-term trend is for the value of listed companies to increase at a rate higher than inflation. Therefore, by investing in a wide variety of companies operating in a range of industries and countries, an investor has a good chance of making long-term gains.

Remember that in assessing the return from shares you need to take into account dividends received as well as capital gains. You should generally also expect that the dividends from the shares that you own will increase over time.

Because of the volatility of share prices (ie the fact that in the short term they may go up or down in value) it's not wise to invest money in shares which you may need in the short term. Shares should be used as a longer term investment. When you need your money you will generally be able to sell your shares but the price at the time may be below your purchase price.

Returns over time

This graph shows the range of returns (high-low) and average returns on key investment classes over the past 20 years.



Sources: Iress, Ord Minnett, Forsyth Barr Research

Alternatives

There are also a number of alternative investment options. For example: gold, hedge funds, commodities and foreign exchange (FX). These forms of investment are not discussed within this document. These alternatives generally comprise one or more of the following characteristics:

- they are for experienced investors requiring in-depth awareness and ongoing knowledge and commitment
- they are harder to access and have a high minimum initial investment
- the investment usually has a higher risk or, in the case of leveraged investment, amplified risk

Ways to invest

There are different ways to invest. You can take a 'DIY' route and invest directly in one or more of the asset classes, with or without the assistance of an Investment Adviser. Or, you can invest in a managed fund where fund managers make a wide range of investment decisions for you.

Direct investment

You can invest directly in term deposits, bonds, shares and property. For some people, making their own investment decisions and taking a more hands-on approach gives them personal satisfaction and saves them paying management fees.

Direct investment in shares in specific companies or selected rental properties should only be undertaken if you have reasonable knowledge or are prepared to pay for specialist advice. In the case of property investment, you need to be willing to either spend the necessary time on administration and management, or to pay a property management company to do this for you.

Managed funds

You can invest indirectly by placing your money in a KiwiSaver scheme, private superannuation scheme or managed fund and have full time specialists look after the investment decisions for you. In a managed fund your money is pooled with other investors, and a professional fund manager invests it in a variety of investments.

Managed funds come in many forms — different funds invest in different types of assets for different objectives. Some funds target all-out growth and invest more in high risk shares than others — they could rise dramatically or just as easily drop dramatically. These funds are for money that isn't vital to your future plans.

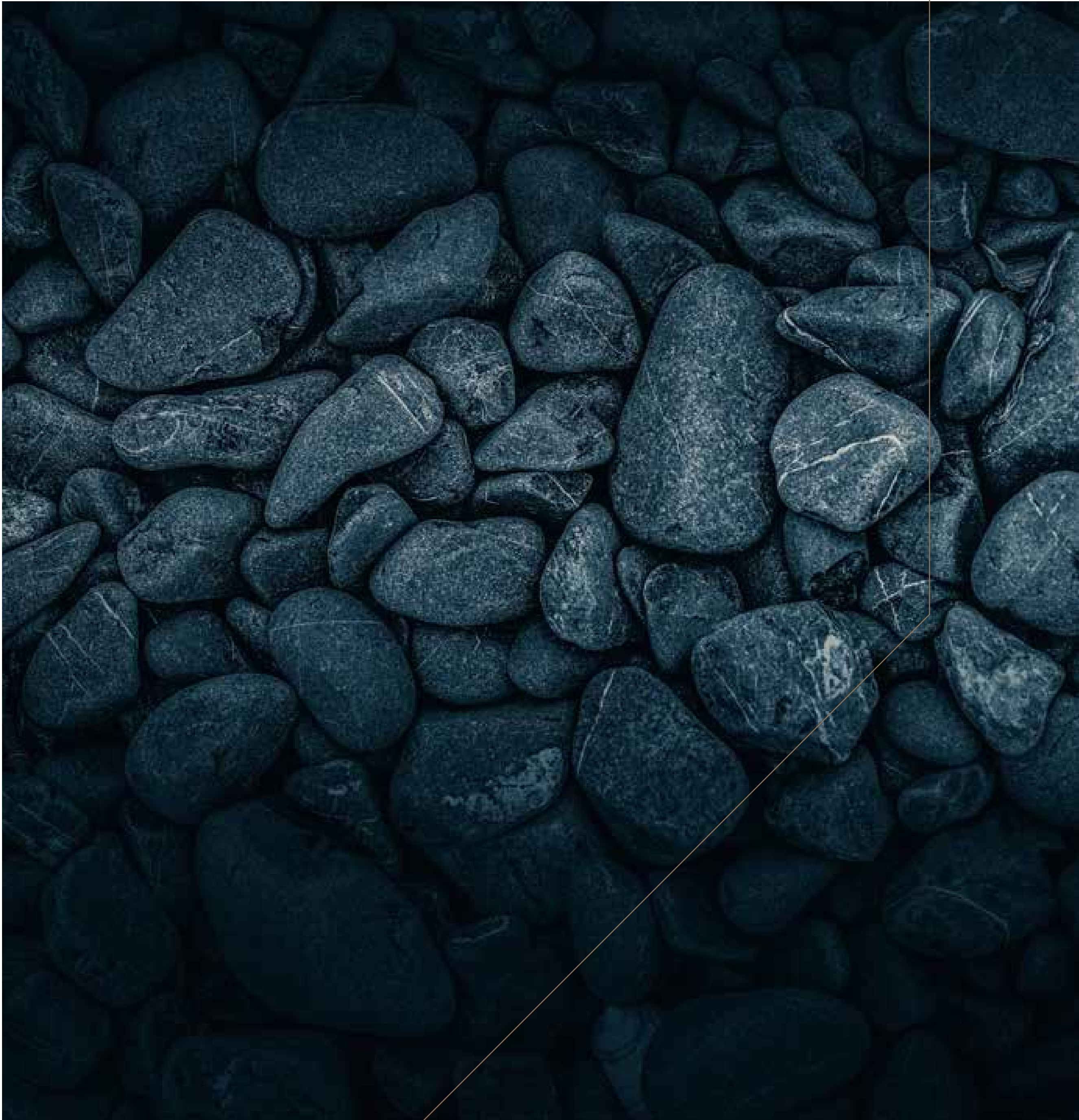
Other funds look for solid long-term growth from a range of deposits, bonds and shares — a better place for a lump sum intended for your retirement. Investment Advisers, banks and insurance companies can all advise you on managed funds that match your investment needs.

Managed funds that are PIEs (Portfolio Investment Entities) have some important tax advantages. Tax paid by a PIE on your behalf is, in most cases, a final tax and you will not need to fill in a tax return for the income you receive on these investments.

Managed funds allow investors access to markets which would otherwise be difficult to invest in. For example, managed funds let you invest overseas or in commercial property.

Managed funds usually involve paying management and administration fees. These can vary, so take the time to review the fees charged to see what you would have to pay.

Direct Investment (for example Shares, Property and Bonds)	**Indirect Investment** (for example Managed Funds and Exchange Traded Funds)
Can be more expensive and time-consuming to be adequately diversified for some asset classes.	Relatively inexpensive diversification and professional management, depending on the fund.
Control: Income more predictable Customise your portfolio easily and quickly Permits implementation of 'tactical' views, and exposure to attractive investment opportunities	**Lack of control:** Income distributions less predictable than direct holdings Fund manager may be forced to buy/sell by fund flow pressures Can be high turnover of underlying securities which leads to tax/cost inefficiency
Transparency of actions, holdings and fees.	Less transparency with regard to actions, holdings and fees.
Compliance and legal requirements can be difficult and costly for international investments and alternative investments.	Easy access to global markets and sectors previously dominated by institutional clients, permits investors to participate in most asset classes.
More onerous tax and account requirements, unless using a portfolio administration service such as a Forsyth Barr portfolio service.	Time savings with fund managers doing all the work, portfolio construction, reporting, tax and compliance issues, investors have more time to focus on more strategic investment decisions.
Tax efficiency: ability to take into account own tax situation	Tax inefficiency: fund managers unaware of investor tax situation



Principal risks of investing

In finance terminology, investment is about putting money into an asset with an expectation of gain, that following analysis, has a degree of security of principal, as well as security of return, within an expected period of time.

In contrast, putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return can be regarded as speculation or gambling. All investments have risk.

Risk

We all manage risk in all aspects of our life on a daily basis. Risk could be as trivial as to take a coat or not, or to undertake a medical procedure that has a small chance of a major complication. In all cases we are looking to seek a benefit whilst exposing ourselves to a possible adverse outcome — we take on risk.

Investment risk

Investment risk is no different. Sensible investors only take on investment risk if they will be adequately rewarded through higher returns. All investments carry a level of risk. To gain higher potential returns an investor needs to take on an elevated level of investment risk. This is sometimes called the risk-return payoff. Some investors forget that higher returns mean higher risk — often with painful consequences.

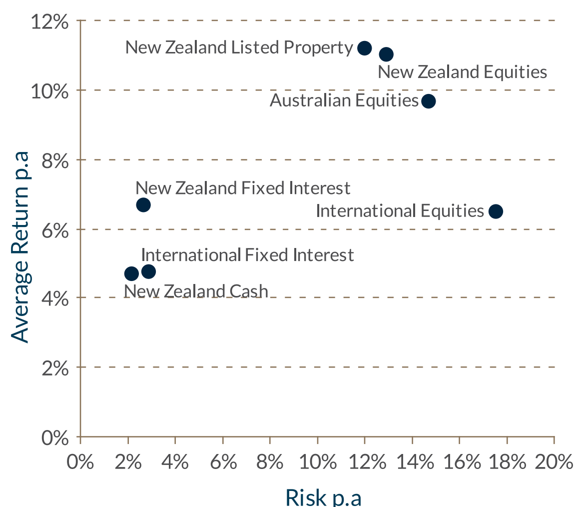
Types of risk

An investment is normally considered to be risky if there is a reasonable chance that its value will vary significantly in the future. For example, an investment in shares is more risky than an investment in a bank term deposit. The value of shares may fall below the price paid for them while the value of bank deposits generally do not. High risk investments should only be taken on with long-term intentions. You would expect a high long-term return to compensate for the high risk.

Managing your risk

You cannot avoid investment risk — rather you seek to sensibly manage risk to ensure you are adequately rewarded. Prudent investors will not 'put all their eggs in one basket'. Although diversification means a lot more than that — it involves thorough research and analysis. Sensible diversification reduces risk because when one or more of your investments may unfortunately be delivering lower returns, other investments should be performing more strongly to offset those lower returns. The overall result is a portfolio which provides a more stable growth profile.

Inexperienced investors sometimes wish to invest all their capital in the single asset class which they believe will perform most strongly over the short to medium-terms. For example, a common question is whether it is a good time to sell property and invest the sale proceeds in the stock market. History suggests that such decisions are difficult to time correctly. The graph shows the average returns and risk (measured as volatility of returns) for key investment classes over the past 20 years.



Sources: Iress, Ord Minnett, Forsyth Barr Research

Risk management tools

Research

Markets are always changing and you need to keep an eye on these changes. It is important to capture, digest and make sense of everything that may impact on the value of your investments, such as what does the latest interest rate hike mean for my investments? Commodity prices are rising, should I be reviewing my asset allocation? Forsyth Barr's research analysts screen sources of commentary and advice from international markets and economies, and review the various announcements, news and trends in business and markets to assess the expected outlook for a company, an asset class or security and convert these into strategies or advice appropriate for investors.

Credit rating

A credit rating is an independent assessment of whether an entity can meet its financial obligations. This includes whether they are likely to be able to pay back the money they owe to investors, on time and in full. Credit ratings are useful as a relative indication of the risk of investing in one entity over another.

All banks registered in New Zealand are required to have a rating from an approved rating agency, and new legislation also requires credit unions, building societies and finance companies to have an approved rating. The approved credit rating agencies for banks are Standard & Poor's, Moody's Investors Service and Fitch Ratings. There is a huge gap between an A rating (1 in 150 probability of default) and a B rating (1 in 5 probability of default).

Investment grade ratings

The term 'investment grade' is sometimes used to describe an investment with a certain credit rating. This generally refers to a rating of BBB (Standard & Poor's and Fitch) or Baa (Moody's) or better. However it is up to the individual investor to decide what level of credit risk to take on and what level of return to demand for that risk.

A strong rating is not a guarantee that an institution is more likely to survive than a weakly rated one. Even a triple A-rated organisation could default in the future.

<table>
<tr><th></th><th>Description</th><th>Standard & Poor's scale</th><th>Moody's scale</th><th>Fitch scale</th><th>Approx. probability of default over 5 years*</th></tr>
<tr><td rowspan="4">Capacity to make timely payment</td><td>Extremely strong</td><td>AAA</td><td>Aaa</td><td>AAA</td><td>1 in 600</td></tr>
<tr><td>Very strong</td><td>AA</td><td>Aa</td><td>AA</td><td>1 in 300</td></tr>
<tr><td>Strong</td><td>A</td><td>A</td><td>A</td><td>1 in 150</td></tr>
<tr><td>Adequate</td><td>BBB</td><td>Baa</td><td>BBB</td><td>1 in 30</td></tr>
<tr><td rowspan="5">Vulnerability to non-payment</td><td>Less vulnerable</td><td>BB</td><td>Ba</td><td>BB</td><td>1 in 10</td></tr>
<tr><td>More vulnerable</td><td>B</td><td>B</td><td>B</td><td>1 in 5</td></tr>
<tr><td>Currently vulnerable</td><td>CCC</td><td rowspan="2">Caa</td><td>CCC</td><td rowspan="2">1 in 2</td></tr>
<tr><td>Currently highly vulnerable</td><td>CC</td><td>CC</td></tr>
<tr><td>Default</td><td>D</td><td>C</td><td>D</td><td></td></tr>
</table>

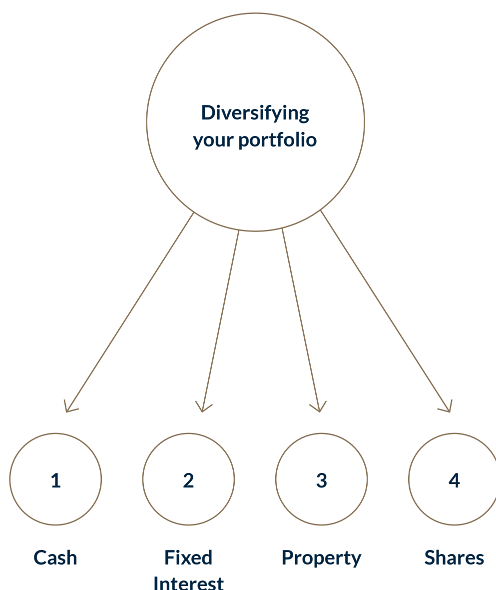
*The approximate, median likelihood that an investor will not receive repayment on a five-year investment on time and in full based upon historical default rates published by each agency.

Source: Reserve Bank

Creating a portfolio/ asset allocation

Prudent investors don't put all their eggs in one basket — they develop a diversified portfolio of investments based on their risk requirements. This means they have investments which are typically spread across the four main asset classes.

These days, with the opening up of global financial markets to New Zealand and new technology, you can invest relatively small amounts in some of the world's most successful companies. At the same time, through a managed fund, you can automatically have a spread over many different investments.



A diversified portfolio means investments are typically spread across the four main asset classes.

Asset allocation is generally accepted as the primary driver of the overall level of investment risk within an investment portfolio — so asset allocation decisions are paramount.

Diversify

The key to asset allocation is combining individual asset classes in the best proportions to obtain the optimal portfolio trade-off between risk and return. The goal is to combine assets with different risk and return profiles. If you diversify across very similar investments, which all perform alike during similar market conditions, then the benefits of diversification are reduced.

Backed up by research

You could make endless combinations to spread your investment risk. Forsyth Barr research and portfolio services have solid guidelines — or portfolio templates. The templates cater for all investor types and life stages. However, one size does not fit all, and these templates are only a starting point.

Asset allocation

Deciding upon a portfolio mix or the asset allocation that matches your risk preference is easier than you might imagine. History usually provides a useful guide to the future. The riskiness of each asset class can be quantified by reference to the way it has performed in the past. Rates of return change over time but the volatility of the asset classes does not change nearly as much.

Stock security selection

While asset allocation broadly caters for risk, investment selection within each asset class is also very important. Usually a maximum allowable single holding within a class is set to avoid exposure to a single or few individual assets. An inter-market distribution for each asset class also needs to be considered. For example, under the shares asset class, a mix of local and overseas shares should be considered and/or a collection of shares from different industry sectors.

Volatility

Volatility is a measure of the standard deviation of returns around the mean. In simple terms this means when an investment value fluctuates wildly it has high volatility; when an investment value doesn't change much over time it has low volatility.

Higher volatility is associated with higher expected returns. The expected volatility of returns on a portfolio increases with the inclusion of more volatile assets. While the expected average annual investment return increases, the downside is that chances of a negative investment return also increase.

Compound returns

Although the differences in expected annual investment returns may not be considered that great, annual return differences will be amplified when compounded over a number of years.

	Higher Risk Portfolio	Low Risk Portfolio
Year 1	15%	3%
Year 2	-8%	3%
Year 3	7%	3%
Year 4	-2%	3%
Year 5	10%	3%

Higher investment returns cannot be achieved without accepting some risk or short-term volatility in returns – risk should not be avoided for the simple reason of failing to understand how it impacts on investment returns. However, it should be stressed that risk has a downside – it can lead to poor investment returns if not managed carefully.

Professional managers

One way of seeing whether you are on the right track with your own asset allocation is to compare it with the way professional fund managers allocate the assets they manage for 'the average investor'.

For example, you could look at the average asset allocation of 'Balanced' KiwiSaver schemes in New Zealand. These balanced funds will contain a range of investments and represent the retirement savings of many hundreds of thousands of New Zealanders.

Ongoing monitoring and management

It is important that your portfolio is regularly monitored and reviewed – a lot of time, thought and effort has gone in to the initial asset allocation. It would be unfortunate to undo all the good groundwork by not reviewing your investments regularly.

It can be tempting to let short-term market movements dictate a change to asset allocation. However, investing is for the long-term. Ongoing management needs to take into account the following dimensions:

Your circumstances

Your personal circumstances will change over time. Part of the ongoing management exercise is to ensure any changed circumstances are reflected in your portfolio. Some changes, for example a change in your salary, may dictate a modification to your investment strategy.

Changes to consider include:

- income needs
- risk tolerance
- personal or financial circumstances
- investment time frame

Rebalancing

A periodic rebalance of your investments is important. A rebalance aims to bring the portfolio back to its initial target weightings. If one asset class performs well and another not so well over a certain time period, the better performing asset will now make up a larger proportion of your total portfolio. Rebalancing would mean that you sell some of the outperforming asset (take profits) and buy some underperforming asset (at lower valuations).

The rebalancing exercise may also look at the investments within each asset class. Over time, individual investments will have variable risk profiles. For example, companies may be losing market share or new technologies or discoveries may propel a company.

It is also important to 'right-size' the exercise. Transaction costs may outweigh the benefit of minor adjustments to weightings. In this case some of the rebalancing can be deferred.

Reporting

Managing the paperwork (or 'back office') related to your portfolio can be frustrating and time-consuming. With a professional investment service however you can expect to receive regular reporting on:

- investment balances and transaction analysis
- cash book reporting (for example investment income and dividends)
- income and tax reporting

Forsyth Barr approach

Forsyth Barr can assist with your portfolio of investments whether you are saving or in retirement, seeking provision of income or capital growth.

We can help plan your portfolio to meet your long-term investment and lifestyle objectives and we can manage and administer your portfolio.

Portfolio management and advisory services

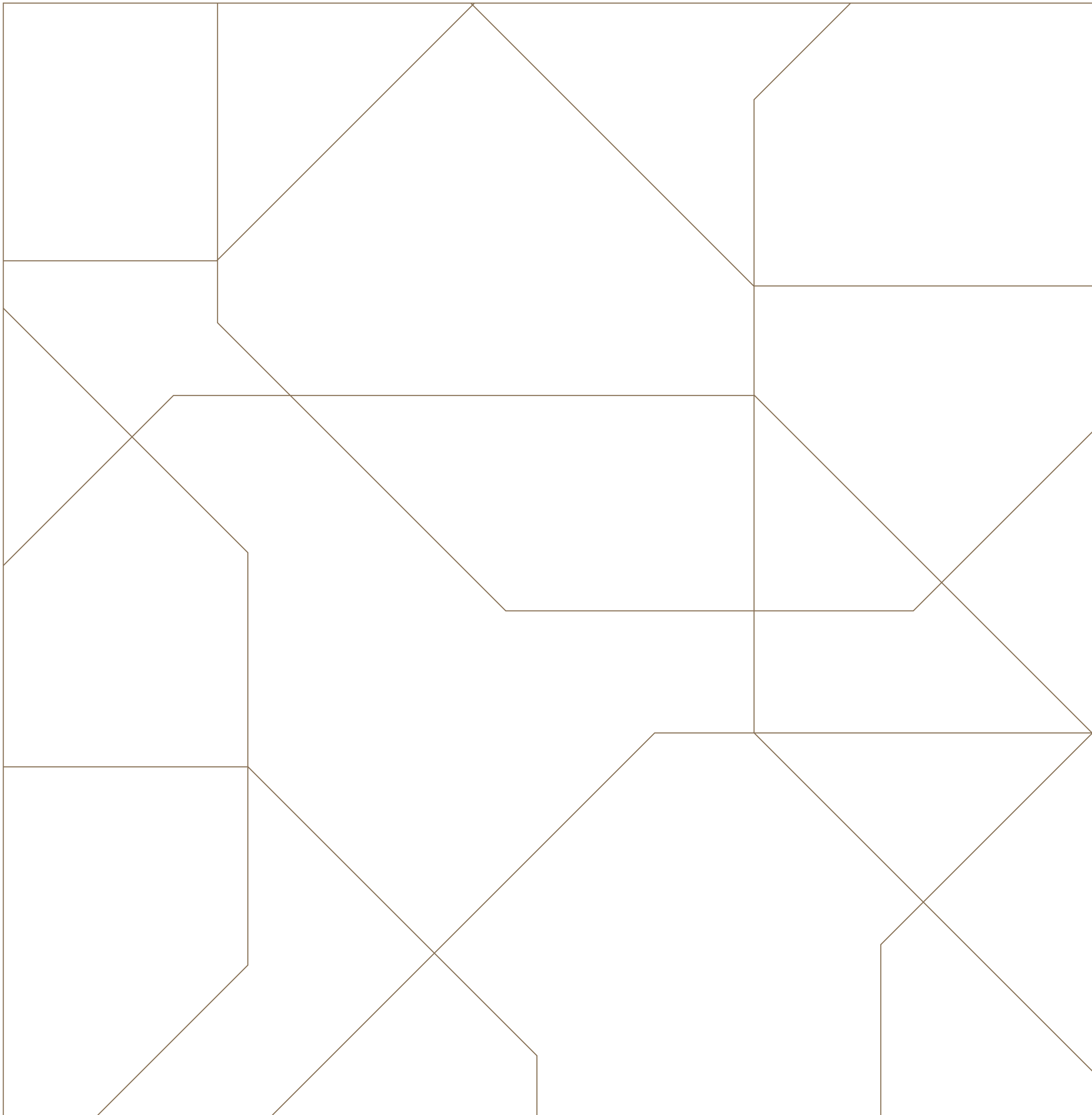
Forsyth Barr is a market leader in the provision of both portfolio advisory and portfolio management services. These services utilise our complete capabilities and expertise to provide you with a unique customised portfolio. These services are comprehensive, taking care of all the administration, record-keeping and safe custody requirements for your investments, and issuing reports to you on a quarterly or as required basis.

Premium Advisory Service

Our Premium Advisory Service gives you access to all areas of our expertise while you make the investment decisions.

Private Portfolio Management

Private Portfolio Management provides you with day-to-day management of your investments.



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Glossary of
investing terms

Glossary of investing terms

A

Active Management: An investment management strategy that uses analytical research, forecasts, and the judgment and experience of Investment Advisers to make decisions on what securities to buy, hold and sell.

Ask: The price someone is prepared to pay for a security. Also known as "offer" or 'the ask'.

Asset Allocation: An investment management strategy that aims to balance risk and reward by choosing and weighting assets in a portfolio, based on the goals, risk profile and investment horizon of the portfolio holder.

Asset Class: A collection of securities grouped together because they have similar qualities and marketplace behaviours. Generally speaking, there are four general types (classes) of investment assets: equities, bonds, property or cash.

At Market: An instruction with a buying or selling order that says the order should be performed immediately at the best price possible.

Authorisation Code: a code or password that identifies the user as being allowed to purchase, sell or transfer items on the New Zealand stock market.

B

Bid: The price someone is prepared to buy a security for.

Bid-Ask Spread: The difference between the 'bid' (the offer price) and the 'ask' (the price asked for).

C

Contributing Shares (or partly paid shares): Shares that are not fully paid. The shareholder will be required to pay the remainder at a later date.

Convertible Note: A fixed interest security that can be changed (at a specified date) into either ordinary shares in the company (often on a one-for-one ratio), or to a cash amount.

Correlation: A statistical measure that shows how two securities move in relation to each other. A positive correlation is when two securities move in the same direction, and a negative correlation is when two securities move in opposite directions. Having two securities in a portfolio with a negative correlation is a means of diversifying and lowering overall risk.

Coupon: The interest rate stated on a fixed-interest security on its issue date. The interest amount (coupon) is paid on a specified date to the coupon holder. For example, a $1,000 bond with a coupon of 7% will pay $70 a year.

CSN (Common Shareholder Number): A unique alphanumeric ID issued by the Share Registry to investors when they buy shares

D

DCF or Discounted Cashflow: A valuation method that estimates the future cashflows of an investment, and then converts (discounts) those cashflows back to a current value. If the current value arrived at through DCF analysis is higher than the current cost of the investment, the investment may be attractively priced.

Debt Security (also known as fixed-income security): Securities (such as bank notes, bonds and debentures) that act as loans to companies or the government. Interest payments are normally received at regular intervals, and Debt Security holders receive their original investment back on the security's maturity date.

Diversification: A risk management technique that spreads investment across a range of asset classes and securities in order to reduce risk.

Dividend Per Share (DPS): Dividends are funds distributed to shareholders out of a company's earnings. DPS is the total dividend to be paid, divided by the number of shares on issue by that company.

Dividend Yield: The dividend income paid out on a share, expressed as a percentage. Calculated by dividing the annual dividend per share by the market price of the share.

E

Earnings Per Share (EPS): An indicator of profitability. Calculated by dividing the company's profit by the average number of shares on issue.

EBIT: Short for 'earnings before interest and taxation'. Because taxes and interest expenses are excluded, EBIT focuses in on the company's operating profitability, which makes cross-company comparisons easier.

EBITDA: Short for 'earnings before interest, taxation, depreciation and amortisation'. Like EBIT, used for cross-company comparisons, but, because depreciation and amortisation costs are left out, EBITDA enables comparisons between companies which have differing levels of debt, asset depreciation, or tax situations.

EPS Growth: An indicator of profitability, EPS growth is calculated as the percentage change between one year's earnings per share and the forecast earnings for the next year's earnings per share.

E**xchange-Traded Fund (ETF):** An investment vehicle or fund traded on the stock exchange like a single security. An ETF is a passively managed collection of securities that reflects the composition of a stockmarket index.

F

FDR: Short for Fair Dividend Rate. Used for tax purposes, FDR is the primary method for calculating attributing interests in a foreign investment fund (FIF). Source: ird.govt.nz

G

Government Stock: Debt securities issued by the New Zealand Government.

Growth Shares: Shares that pay low dividends (as company profits are re-invested), but are seen as having the potential for growth in the future.

I

Imputation Credits: A tax credit attached to a dividend payment, showing tax the company has already paid on earnings. This tax credit can be claimed back from the IRD.

Income Shares: Shares in a company with a high dividend yield that pay a higher proportion of their earnings as dividends.

Income Stream: The interest amount (coupon) paid to the holder of a debt security. For example, a $1,000 bond with a coupon of 7% would have an income stream of $70 a year.

Internal Rate of Return (IRR): An indicator (expressed as a percentage) that measures and compares the profitability of investments.

Initial Public Offering (IPO): The initial sale of stock by a private company to the public. It can be used by either small or large companies to raise capital for expansion and become publicly traded enterprises.

Issuer: an entity (like a company) that finances its operations by developing, registering and selling securities.

L

Liquidity: The amount to which an asset or security can be bought or sold in the market without affecting the asset's price. Also the ease and speed with which investments can be turned back into cash.

Listed Property Trust (LPT): A unitised portfolio of property assets listed on a stock exchange. Commonly referred to as real estate investment trusts (REITs).

M

Market Capitalisation: The total dollar value of a company's outstanding shares, calculated by multiplying the number of shares by the current market price of one share. For example, if a company has 2 million shares each worth $3.00, the company's market capitalisation is $6 million (2,000,000 x $3 per share). Usually abbreviated to 'Market Cap'.

Market Efficiency: The degree to which market prices reflect all available, relevant information.

N

Net Asset Value (NAV): A valuation method that shows a company or fund's assets minus any liabilities.

Net Present Value (NPV): A valuation method that shows the current value of future cash flows from an investment (the present value) minus the amount of the investment.

Net Tangible Asset Backing Per Share (NTA): A ratio that divides a company's Net Tangible Assets (the total assets of a company, minus any intangible assets (such as goodwill, patents and trademarks), and minus all liabilities) by the number of its shares on issue. NTA shows the money that, in theory, each shareholder would receive if the company was put into liquidation.

Non-Renounceable Rights Issue: A method companies use for raising extra capital, where shareholders in the company can purchase more shares in that company (usually priced below the current market price). These rights to buy more shares cannot be sold on market or transferred to another shareholder.

O

Option: A contract that offers the buyer the right to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

P

Passive Management: A style of investment associated with managed funds that tries to mirror the risk/return pattern of a market index. Also known as "passive strategy," "passive investing" or "index investing."

Payout Ratio: A ratio that shows the percentage of after tax profits a company pays its shareholders in dividends. Calculated by dividing the Dividend Per Share by the Earnings Per Share.

P/E (Price Earning) Ratio: A valuation method that indicates the underlying value of a company by dividing its current share price by its Earnings Per Share (dividends). Generally speaking, a high P/E ratio indicates that investors are expecting higher earnings growth in the future.

PIE: Short for 'Portfolio Investment Entity'. A PIE is a managed fund that puts investor contributions into different types of investments. All Forsyth Barr Investment Funds are PIEs.

Perpetual Note/Bond: A bond that has no fixed maturity date.

Preference Shares: Shares with fixed dividends paid to shareholders before ordinary share dividends are paid out. In the event of a company bankruptcy, preference shareholders have a right to be paid before ordinary shareholders.

Premium: The difference between the higher current price of a bond or equity and its face value.

Principal: The face value of a bond.

R

Registry/Registrar: An organisation responsible for keeping records of bondholders and shareholders. Their role is to make sure the amount of shares in the market is the same as the amount of shares authorised by the company.

Renounceable Rights Issue: A method companies use for raising extra capital, where shareholders in the company can purchase more shares in that company (usually priced below the current market price). These shares can be sold on market or transferred to another shareholder.

Reweighting/Rebalancing: The change in the proportion of individual holdings or weightings in asset classes within a portfolio.

S

Sell Short: If an investor borrows shares and sells them on the open market, they are said to have 'sold short'. The investor has to return the borrowed shares by buying them back at a later date. If the stock falls in price after they are sold, the shares will be bought for less than what they were sold for, therefore making a profit for the investor.

Share Buyback: When a company buys back its own shares from its shareholders, reducing the number of its shares on the market. This is done either to increase the value of shares still available (by reducing supply), or as a way of stopping other shareholders from getting a controlling stake in the company.

SRN: A Security-holder Reference Number is a unique identifier given to an investor when buying shares that identifies their shareholding in that company.

Stapled Security: Created when two or more related securities (usually one warrant and one share in the funds management company) are contractually bound together ('stapled'). These securities cannot be sold separately.

T

TCS Bancs: The clearing and settlement system used to settle securities traded in New Zealand.

U

Unit Trusts: A form of collective investment |set up under a trust deed that allows funds to hold assets and pass profits through to the individual owners. Known as 'Mutual Funds' in the United States.

V

Value Share: Shares that sell at low prices compared to the value of the company's assets, sales and earnings power.

W

Warrants: Similar to an Option, a Warrant is a derivative security, issued and guaranteed by a company, that offers the buyer the right to buy or sell a security or other financial asset at an agreed-upon price at a future date.

Y

Yield: The interest or dividends received from a security, usually expressed as a percentage per annum, based on the investment's cost, its current market value or its face value.

Yield Curve: A line on a graph that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. A normal yield curve is upward sloping, with short-term rates lower than long-term rates.

We pride ourselves on maintaining strong and trusted relationships with clients and on providing detailed information that is transparent and understandable.

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