Glossary of investing terms

FORSYTH BARR

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.

Authorised Financial Adviser (AFA): People able to advise on more complex investments, KiwiSaver or provide financial planning services, including securities, any estate or interest in land and futures contracts. AFAs have to comply with a Code of Professional Conduct, as well as meeting standards for competence, knowledge and skills, client care, ethical behaviour and ongoing professional training.

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

Class Service: Non-personalised advice that is general in nature and does not take into account a client’s financial situation or circumstances. *Source: www.fma.govt.nz*

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 know 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.

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

E

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.

Exchange-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: www.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.

Personalised Service: Advice provided to a client by an Adviser with the client's financial needs, goals and risk tolerance taken into account. *Source: www.fma.govt.nz*

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

Registered Financial Adviser (RFA): People who can only advise on Category 2 products such as mortgages, bank term deposits, consumer credit contracts and many insurance products.

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.

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