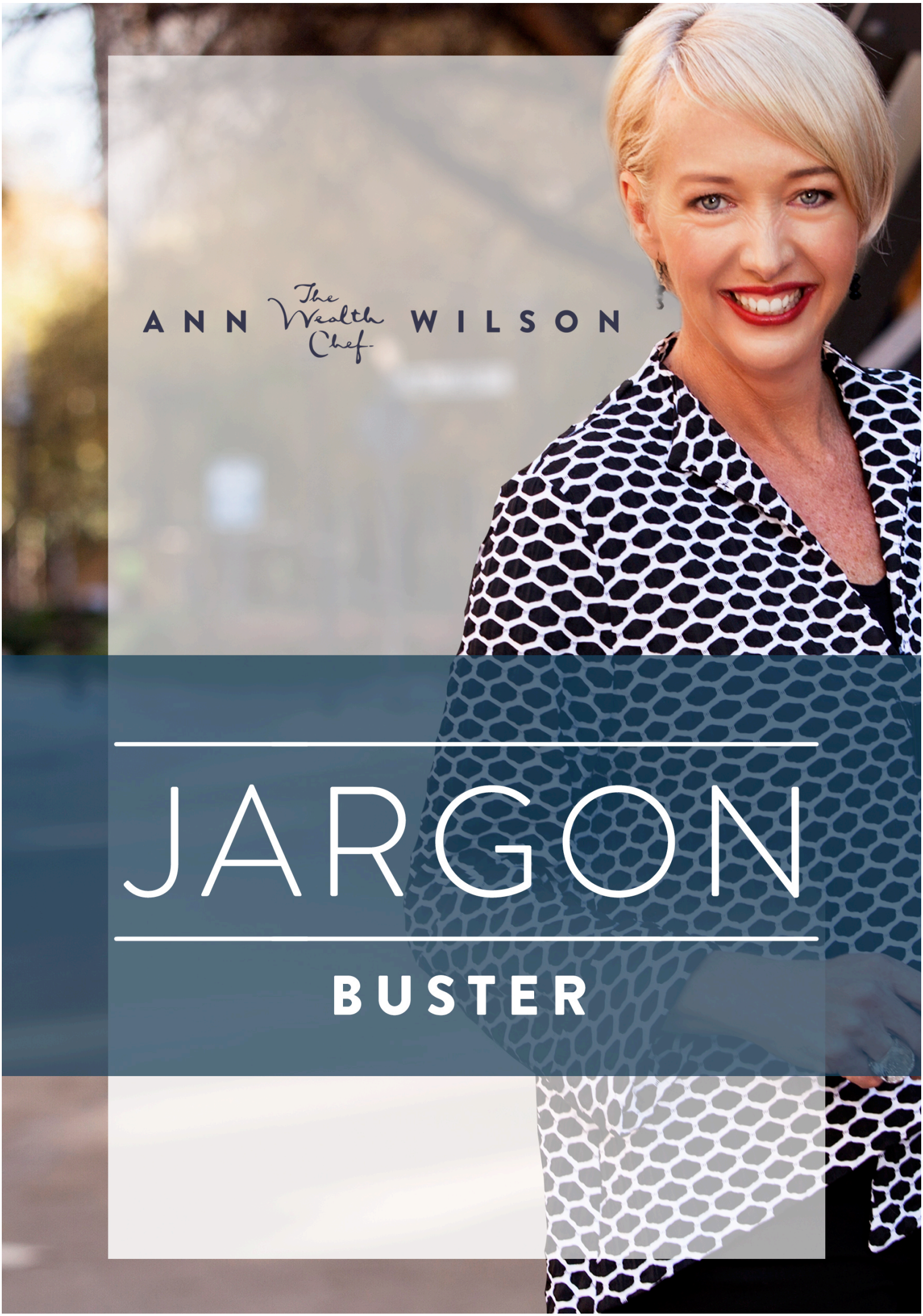

ANN The Wealth Chef WILSON

JARGON

BUSTER

Do you feel like the financial industry purposefully speaks in gibberish just to keep you in the dark, and make you believe investing in the stock market is scary and difficult? **No longer.**

Use this handy **financial jargon buster** to turn the lights on and feel confident about your investing.

ACTIVE FUNDS

A fund that is actively managed by a person and their team. They are called the fund manager and because there is a person involved in the day to day management, they need to eat, have a fancy car, get bonuses and so on and all of that needs to get paid out of the fund - i.e. your money. Actively managed funds typically have higher ongoing management fee's which eat into your returns. The fund fund manager will manage the fund in a way that tries to outperform a section of the market as a whole - a pre-determined benchmark index. (oh no - more jargon - no worries just look up index below)

ACCUMULATION UNITS

The investments held within a fund earn an income in the form of dividends, interest etc. Accumulation units do not pay out this income to you. (This is a good thing when you are in the growth stage of your wealth feast creation) and instead reinvest this within the fund so that money can go on to earn you more money. This is how you let compounding works it's magic for you. You are accumulating the income and not spending it!!

AER (ANNUAL EQUIVALENT RATE)

This is the rate of interest you receive on any cash balances you have sitting in your online broker account. It is always shown as an annual percentage, e.g. 1% AER

ASSET ALLOCATION

What this means is, rather than investing all your money in one place (or one type of asset), you invest in a mix of different assets, so that potential losses in one asset class may be offset by potential gains in another. For example, you spread your investing across a range of different asset classes such as equities, fixed interest, investment property and passive income businesses.

ASSET CLASS

This refers to a group of different types of investments that funds invest in, such as equities (a piece of a business), fixed interest and property.

B

BENCHMARK INDEX

This will show you how your investments are doing compared to a specific part of the market (i.e a benchmark against which you compare). It is also a great way to see how an actively managed fund is doing compared to the market and give you a point of reference for evaluating a fund's performance. Just be aware, the charts you see of actively managed funds performance usually show you the performance BEFORE their fee's and charges are taken off - so it isn't the performance you will actually get. This information can be found in the Fund Factsheet.

BID PRICE

The price at which you can sell units or shares. This is the price at which others in the market are prepared to buy your units or shares. Check out the definition of the Offer Price below.

BID OFFER SPREAD

Some collective investments (unit trust and mutual funds) quote two dealing prices, an offer price and bid price. The offer price is the price at which you buy units or shares and the bid price is the price at which you will sell units or shares. The difference between these prices is known as the bid offer spread. This also applies to currency and commodity trading.

BLENDED FUNDS

Blended funds combine a variety of investment styles (e.g. passive and active) in managing assets across a broad range of sectors and markets.

BONDS

Bonds are a type of loan which typically pay a fixed amount of interest (known as a coupon) over a set period of time (the duration). Bonds issued by companies are known as corporate bonds, whilst bonds issued by governments are known as government bonds or Gilts. When you invest in bonds you are effectively the lender and you get paid the interest on the loan.

C

CAPITAL GAINS TAX

Often abbreviated as CGT, this is the tax on any gain or profit you make when selling investments. When you invest in a tax efficient wrapper such as an ISA in the UK, a ROTH in the USA, a tax free savings account in South Africa - you protect your investment growth from CGT.

CASH

Money that you hold within your investment account that is not yet invested.

CLOSED ENDED FUNDS

A collective investment fund that has a fixed number of units or shares in issue - unlike open ended funds, closed ended funds do not have to issue or buy back shares on a continuous basis and the price will be influenced by supply and demand.

COLLECTIVE INVESTMENT

A generic term for investment funds with many investors, for example unit trusts, exchange traded funds, mutual funds and investment trusts. These can either be passive or actively managed funds. By pooling investments, investors can own a small piece of a wide number of underlying investments (shares in companies), benefit from lower costs as you get all the shares in a bundle through a single transaction and spread your risk.

COMMODITIES

A commodity is a physical material. They can be either 'hard' commodities such as gold, silver or copper, or 'soft' such as coffee, oil and cereals. The price of a commodity is subject to supply and demand.

CORPORATE BONDS

Corporate bonds are issued by companies to raise money. These are similar to government bonds (see Gilts) but often carry more risk.

COUPON

The interest payment from a bond.

DIVERSIFICATION

This means spreading risk by investing across different sectors within an asset class so that potential losses in one sector or region is offset by potential gains in another. For example, an investment portfolio could be diversified by holding shares in a range of companies rather than just one or two, (this is what is great about an index tracker), by having index tracker funds covering different geographical regions and by having investments in different sectors such as retail, industrial, banking and property.

DIVIDENDS

A dividend represents a share of the profits that a shareholder receives in return for investing in a company's shares. These pay outs are typically made in cash - called cash dividends - and are normally paid twice a year.

EQUITIES

This asset class is also known as stocks or shares. This is where you buy a piece of a company and the value of this piece will be influenced by a number of factors such as the profits that the company makes, how the company is perceived to be performing and whether the company may increase in value in the future.

EXCHANGE TRADED FUNDS

Exchange Traded Funds (ETFs) are collective investment funds that track indexes like the NASDAQ-100 Index, S&P 500, Dow Jones, JSE top 40, FTSE 100 etc. Like a unit trust fund, the exchange traded fund is divided up into shares and you can buy shares in the ETF and so own a bit of each of the companies owned by the ETF known as a portfolio. Unlike unit trust funds which you buy via your online broker from the fund management house, the shares of the ETF are bought and sold directly on the stock exchange again via your online broker.

F

FIXED INTEREST

This asset class refers to investments, usually bonds, which pay out a fixed amount or fixed rate of interest.

FUND / INVESTMENT FUND

An investment fund is a form of collective investment, managed by a fund manager. The money you invest is combined with the money from other investors and used to buy a range of assets such as fixed interest, property and equities.

FUND MANAGER

A fund manager's job is to try meet the stated objectives of the fund they manage and usually they aim to beat the specific index they are benchmarked against. This means they are responsible for both the day-to-day decisions about the fund, such as which shares to buy and sell, and the long-term decisions, such the overall strategy they will follow. Unlike passive funds, where there is no fund manager, because a computer just mirrors what is happening on the market, the fund manager and their team need to eat, have homes, drive car's etc and this is what you pay for as part of the fund management fee. Sadly, less than 15% of actively managed funds and their fund managers actually beat the index!

G

GILTS

Gilts (or Gilt Edged Securities) are bonds issued by the UK government, usually paying a fixed interest rate for a predetermined length of time. You lend the Government money and get paid interest.

GROSS INTEREST

This is the interest payable on your cash before income tax is deducted.

I

INCOME UNITS

Most investment funds offer both income units and accumulation units. With income units, any income generated by the fund (dividends and interest) is paid out (distributed) to everyone who invests in the fund on specific dates (often monthly or quarterly).

INDEX / STOCK MARKET

An index measures the change in value of a group of stocks or company shares which together represent an entire market or market sector. Examples includes the FTSE 100 which reflects the changing value of the UK's biggest 100 companies, or the S&P 500 which measures the change in value of 500 of the largest companies listed on North American stock markets. You can also have indices for different market sectors such as Industrial or retail companies listed on a specific stock exchange.

INFLATION

Inflation is a measure of the increasing cost of living. Prices will usually rise as result of the increased demand for goods and services, meaning that in future your money may not having the same buying power as it currently does.

INVESTMENT TRUST

Investment trusts are collective investments which are structured as public companies, listed on the stock exchange and have fixed share capital. Unlike unit trusts or OEICs, the share price fluctuates with the level of demand rather than being directly linked to the value of the underlying assets.

K

KISS - Keep It Simple & Safe (as friendly reminder from The Wealth Chef)

MULTI ASSET

Multi asset funds will invest in a broad range of assets and markets. They typically invest in bonds, equity (shares in companies), property and money market - in markets all over the world.

MONEY MARKET

In a money market investment, your money is placed with banks, building societies and a mixture of financial investments with the aim of returning you interest on your cash. Sometimes known as 'near cash' - this can include Certificates of Deposits, Floating Rate Notes and Treasury Bills.

NET INTEREST

This is the interest payable on your cash after income tax is deducted.

OEIC (OPEN ENDED INVESTMENT COMPANY)

An OEIC is a collective investment which is structured as a company and therefore operates under corporate law. This very similar to a unit trust, which operates under trust law but is otherwise the same as far as you and I are concerned.

OPEN ENDED FUND

Most collective investments (unit trusts, OEIC and Exchange Traded Funds) are open ended funds. The number of shares or units can be varied on a daily basis depending on supply and demand. The unit or share price will be directly linked to the value of the underlying investments owned by the fund.

PASSIVE FUNDS

Passive funds track or mirror the overall performance of a particular sector or index. Typical examples include funds that track the FTSE 100 (investing in the UK's biggest 100 companies) or the S&P500, (investing in the biggest 500 companies listed in the USA). I LOVE Passive Funds!

PORTFOLIO

This refers to a collection of shares or funds. A unit trust, OEIC or exchange traded fund holds a portfolio of shares. You can hold a portfolio of shares in your investment account, and a collection of unit trusts or exchange traded funds owned by you is also referred to as a portfolio.

PROPERTY

This asset class refers to real estate including land and buildings that can be bought and sold. You can invest in companies that hold physical property and as such own a piece of those properties. These are called Real Estate Investment Trusts (REITs)

RETURN

A return is what you've earned on an investment during a certain time period. This is the growth in the value of the investment. It is usually given as a percentage return over a specific time period. With most online brokers you can select the period over which you want the return to be shown. i.e return over the last year, return since you bought the shares or units.

REITs

A Real Estate Investment Trust is a closed-end investment company that owns physical property assets related to real estate such as buildings (commercial, industrial, retail and residential), land and real estate securities. REITs are then divided up into shares like any other company listed on a stock exchange and you can buy and sell shares in the investment trust.

SHARES (EQUITIES)

A company listed on a stock exchange will be divided into shares, and the price of these shares will fluctuate depending on a number of market forces and factors.

SINGLE ASSET

Single asset funds invest in one type of asset class only such as either equities, fixed interest - corporate and government bonds, property, money market or commodities.

TRADING ACCOUNT

Also known as a General investment Account, a trading account allows you to invest in a range of unit trust funds, exchange traded funds and shares. Unlike different tax efficient wrappers like pensions, ISA's, 401k's, etc there is no annual limit to the amount you can invest in a trading account, however a trading account does not offer any tax benefits.

UNDERLYING ASSETS

This refers to where the assets are invested in a collective investment fund.

UNITS

A collective investment such as a unit trust or exchange traded fund is divided into equal parts called units. These units are then bought and sold by investors in a fund. The number of units held is multiplied by the unit price to determine the value of the investors' share (holdings) of the fund.

UNIT PRICE

This is the price of a single unit in a collective investment fund.

UNIT TRUST

A unit trust is a form of collective investment and is set up under the investment guidelines which pools investors' money to invest in different companies. Investors buy a slice of the collective investment (a unit) and as such have a small piece of all the shares owned by the collective as a whole. These units can be purchased via an on-line broker from the Fund House who manages the collective investment. Unit trust funds can be either passively or actively managed funds.

WRAPPER

An investment "pot" in which different types of investments can be held together in one place usually for the purpose of taking advantage of tax saving benefits. This includes, pensions, Self Invested Personal Pensions - SIPPS' (in the UK), Individual Savings Account's - ISA's (in the UK), 401k's (USA), superannuations (Australia), 401k's and ROTH's in the USA; retirement annuities and Individual Tax Free Savings Accounts (South Africa).
