



# Glossary of Investment Terms

Like many industries, the terms used within the investment industry can be quite confusing. We have developed the following glossary of terms to help you navigate your way.

## Active Management

An investment management approach that seeks to outperform the market through the application of informed, independent investment judgement. The opposite of passive management, or "indexing" which seeks to replicate market performance through the construction of a portfolio mirroring the composition of the market.

## Accrued Interest

Interest that has accumulated on a debt security since the last coupon (interest payment).

## Annual Report

In the context of the New Zealand sharemarket, the annual report is a financial report or statement issued by a company to its shareholders. The annual report contains a profit and loss statement, a balance sheet and a statement of cash flow, as well as notice of the Annual General Meeting (AGM) and business resolutions to be discussed.

## Arbitrage

The buying and selling of an asset or security, usually on two separate exchanges, to take advantage of any variance in price that may exist.

## Ask

The price at which someone is prepared to sell shares. Sometimes referred to as "Offer".

## Asset Allocation

The selection and weighting of shares, bonds, property and cash equivalents and other assets in which your money is invested creating your investment portfolio.

## Asset Class

When talking about investment, an asset class refers to one of four general types of investment: shares, bonds, property or cash.

## At Market

An instruction with a buying or selling Order indicating that the order should be carried out immediately at the best possible price.

## Authorisation Code

The equivalent of a four digit PIN number required to make a transaction on the New Zealand stock market.

## Authorised Financial Adviser (AFA)

The only people allowed to advise on more complex investments, KiwiSaver or providing a financial planning service including securities, any estate or interest in land and futures contracts. All AFAs are required to comply with a Code of Professional Conduct and meet minimum standards for competence, knowledge and skills, client care, ethical behaviour and ongoing professional training.

Source: [www.afa.org.nz](http://www.afa.org.nz)

## Bear Market

A period of market weakness.

## Bid

The price at which someone is prepared to buy a security.

## Bid-Ask Spread

The bid-ask spread is the difference between buying and selling price. (The bid is the price offered; the ask is the price requested).

## Blue Chip Shares

Shares, in a high quality company with a record of steady or growing profits and dividend payments.

## Bonds

Bonds are certificates of debt issued by companies, Governments and other organisations in order to raise funds. Bonds have a fixed repayment date and pay a fixed rate of interest. The price of bonds fluctuates as interest rates move. Bonds can be traded on the debt market.

## Bond Premium

When the price of a bond exceeds its face value.

## Buy on Margin

An investor may use money borrowed from a broker or bank to purchase securities.

### **Bonus Shares/Bonus Issue**

Additional shares issued by the company to existing shareholders for free, usually in a pre-determined ratio to the number of shares already held.

### **Brokerage**

The fee paid to a sharebroking firm for buying or selling shares and fixed interest securities.

### **Bull Market**

A period of market strength.

### **Business Cycle**

Also known as the economic cycle. The rise and fall of the economy, from a peak, or boom, to a trough and back to a peak. The length and duration of each phase is not predictable.

### **Capital**

The value of an investment in a business, or in assets such as property or shares.

### **Capital Growth**

The increase in value of your invested capital.

### **Capital Markets**

The universe of publicly-traded securities, including shares, fixed-interest securities and money-market instruments.

### **Capital Note**

A debt security that pays a fixed rate of interest for a specified time period. At maturity the investor is offered the option of investing for a further period or converting to ordinary shares, usually at a discount to the prevailing market price.

### **Class Service**

Class service or class advice is non-personalised advice. It is general advice, and may include any view regarding an investment that does not take into account a client's financial situation or circumstances. *Source: [www.fma.govt.nz](http://www.fma.govt.nz)*

### **Closing Market Price**

The last traded price of a security at the end of the trading day.

### **Company Analysis**

Research of a specific company using the calculation of financial ratios and/or forecasting of profits, cash flows and dividends. Analysis gives a basis for the valuation of shares and recommendations on when to buy, sell and hold shares.

### **Constituent Company**

A company whose securities are included in an index.

### **Contract Note**

A written document confirming a transaction between two brokers or a broker and a client which details the costs, type and quantity of shares traded.

### **Contributing Shares (or partly paid shares)**

Shares that are not fully paid. The outstanding amount is payable at a time chosen by the company.

### **Convertible Note**

An interest-bearing security that converts into the equity of the company at a later date usually on a fixed ratio.

### **Correlation**

The degree to which two assets behave in a similar manner under differing market conditions. The more similarly they behave, the greater their positive correlation; the more they behave in opposite ways, the greater their negative correlation. Two assets that have a high negative correlation, the more one will diversify the other- lowering an investors overall risk.

### **Corporate Bonds**

Bonds issued by a company to raise money (capital), often in order to expand its business.

### **Coupon**

The interest rate at which a fixed interest security is issued. The interest amount (coupon) is paid on a specified date to the security holder.

### **Coupon Date**

The date on which the coupon is paid to the security holder.

### **Coupon Frequency**

How often the coupon interest is paid each year.

### **CSN**

A Common Shareholder Number is a unique number allocated by the Share Registry to investors when they buy shares.

### **Current Market Price**

The latest traded price on a security at any given time.

### **DCF or Discounted Cashflow**

A method used to value the future cashflows of an investment. All future cashflows or earnings must be converted back into today's money (or present values) in order to properly determine the value of the investment. DCF is a commonly-used method for valuing companies.

### **Debentures**

A type of fixed interest security usually issued by finance companies at a fixed rate of interest and for a fixed term, usually one to five years. The debenture is secured by a trust deed over an asset, or assets, of a company.

### **Debt Security**

A security that represents a loan to a company or the government. Debt security (such as bank notes, bonds and debentures) holders normally receive interest payments at regular intervals, and receive their money back on the security's maturity date.

### **Default**

When an issuer cannot meet their payment obligations.

### **Diversification**

The practice of investing in a range of investments, principally to reduce risk. A portfolio can be diversified either within and/or across asset classes.

### Dividend or Dividend Per Share (DPS)

Money paid to shareholders out of a company's profit (after tax and all other expenses). Dividends are usually a certain number of cents per share, paid regularly according to the company's dividend policy.

### Dividend Yield

The rate of investment return received by way of dividends. The yield is calculated by dividing the annual dividend (cents per share) by the market price of the share (cents).

### Earnings Per Share (EPS)

The amount of annual profit (after tax and all other expenses) that is attributable to each share in the company. EPS is calculated by dividing profit by the average number of shares on issue.

### EBIT

An abbreviation for 'earnings before interest and taxation'. A measure of a company's earnings before considering the financing of that company (the share of equity and debt employed). Because it excludes interest costs and taxation, EBIT allows comparisons between the underlying company's performance over time, and between different companies in similar industries.

### EBITDA

An abbreviation for 'earnings before interest and taxation, depreciation and amortisation'. A measure of the company's earnings before considering the financing of that company (the share of equity capital and debt employed), and disregarding potentially very different depreciation and amortisation policies. EBITDA allows fair comparisons between company performance over time, and between different companies in similar industries.

### Effective Interest Rate

The interest rate on a debt or debt security that takes into account the effects of compounding.

### Efficiency

The degree to which the knowledge and expectations of all investors about companies are factored into the market prices of shares. The market is said to be efficient when prices reflect all the information available to investors. Rules and practices on company reporting and disclosure promote market efficiency as well as fairness.

### EPS Growth

The one-year (historical or trailing) EPS growth rate is calculated as the percentage change in earnings per share. The prospective EPS growth rate is calculated as the percentage change in this year's earnings and the forecast earnings for next year.

### Equities

In sharemarket terms, equities are a synonym for shares and represent part-ownership of a company, as distinct from debt securities such as bonds and debentures. From a business perspective, equities represent the total interests of parties in the assets of that business entity.

### Exchange-Traded

A security that is traded on an exchange such as NZX.

### Exchange-Traded Fund

An exchange traded fund (ETF) is an investment vehicle or fund that is traded on the stock exchange much like a single security. It is a basket of securities that reflect the composition of a stockmarket index. The ETF's value is based on the net asset value of the underlying stocks that it represents.

### Ex Date

The first business day after the record date for an entitlement or right. From this date, any shares purchased do not carry that entitlement or right.

### Face Value (or Nominal Value)

The amount at which securities are issued.

### Fair Value

In the futures market, the equilibrium price for a futures contract. This is equal to the spot price after taking into account compounded interest (and dividends lost because the investor owns the futures contract rather than the physical stocks) over a certain period.

### FDR

Fair Dividend Rate (FDR). A deemed rate of return for international equity investments, set at 5%.

### Financial Statements

The set of financial records all companies must produce to certain accounting standards: profit and loss statements (or income statements), balance sheets and cash flow statements. Listed companies must publicly issue these twice a year within strict deadlines. The statements – and accompanying notes – are the starting point for all company analysis and share valuation.

### Fixed-Income Securities (Bonds, Notes, etc)

Securities representing loans to governments, corporations and banks for a stated period at a fixed interest rate – as opposed to equities (shares), which represent shares of ownership.

### Float (or Initial Public Offer "IPO")

The process of publicly offering shares to investors and listing on the sharemarket. A float may involve the issue of new shares to raise more capital for the company or the sale of shares previously owned by other shareholders. Float and "IPO" are terms often used interchangeably.

### Fundamentals

Anything that is "fundamental" to the working of a company's business and its profitability: operating costs, product prices, technical innovations etc. Company analysis taking into account of these fundamental factors facilitates share valuation.

### **Futures**

An agreement/contract that obligates a buyer to purchase and a seller to sell a specified quantity of an underlying asset at a future date and at a price agreed when the contract was executed.

### **Government Stock**

Bonds (debt securities) issued by the New Zealand Government.

### **Growth Shares**

Growth shares are shares in companies that have the potential to achieve above-average growth in profits over time. Growth companies tend to pay low dividends and re-invest their profits into growing their business.

### **Hybrid**

A term or classification encompassing securities that have both debt and equity characteristics.

### **Imputation Credits**

When a New Zealand company pays a dividend it may attach imputation credits to the dividend reflecting the tax the company has already paid on earnings.

### **Income Shares**

Income Shares provide income in the form of dividends. Shares in a company that pay a higher proportion of earnings as dividends and offer a relatively high dividend yield are termed income shares.

### **Income Stream**

The coupon payable to holders of debt security.

### **Index/Index Fund**

A basket of companies trading on a particular sharemarket. The value of the index is used as a benchmark to gauge market performance.

### **Inflation**

The rate at which prices tend to rise.

### **Internal Rate of Return (IRR)**

The return required from an investment so that the present value of the future cash flows is equal to the cost of the investment. IRR answers the question, "If my investment had been invested in a bank account instead (and I made the same contributions and withdrawals), what interest rate would give me the same ending value?"

### **Initial Public Offering (IPO)**

An Initial Public Offering is the first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

### **Issuer**

A company (or other form of organisation) that has raised capital through selling securities on the debt or capital markets.

### **Limited Liability**

The common legal structure in which shareholders are not liable for debts incurred by their companies - liability is limited to the value of their shares. Very few listed companies are not limited liability.

### **Liquidity**

Liquidity relates to the ease with which an investment can be turned back into cash. Government bonds are an example of a very 'liquid' investment, because you can usually sell them at a moments notice. Investment property, on the other hand, has low liquidity, as it takes time to sell a property and receive payment and has substantially higher transaction costs.

### **Listed Company**

A company, which has agreed to abide by the Listing Rules of the exchange so that its shares can be bought and sold on that exchange.

### **LPT - Listed Property Trust**

A unitised portfolio of property assets that is listed on a stock exchange. This allows investors to purchase an interest in a professionally managed portfolio of real estate. These are commonly referred to in other jurisdictions, such as Australia, as real estate investment trusts or (REITs).

### **Managed Funds**

Companies or trusts that offer a means of investing indirectly in shares (and other securities and assets). They combine money from many investors who seek a higher return by having professional managers buy, sell and hold shares within a portfolio of investments. Managed funds are sometimes called "mutual funds".

### **Market Capitalisation**

The total market value of a company or the total market. It is calculated by multiplying the total number of shares on issue by their market price. This can be applied to work out the market value of one company, an index or the value of all companies listed on an exchange.

### **Market Price**

The prevailing price of shares traded on the appropriate stock exchange (e.g. NZX). May be the last price at which the shares traded, or the most recent price offered or bid for the shares.

### **Market Risk**

Market risk is risk inherent in the whole market, often called systemic risk or non-diversifiable risk. It is the risk at collapse of an entire system, not any one individual entity or company.

### **Market Timing**

Switching out of, or into, shares or bonds according to one's forecast of how the markets will do in the short run.

### **Maturity Date**

The date at which a fixed interest security matures.

### Minimum Holding

The minimum amount of shares/bonds an individual must hold.

### Net Asset Value (NAV)

The value of a company's assets less the value of its liabilities. The total assets (securities, cash, and accrued earnings) of a company or fund minus any liabilities, usually expressed on a per share basis (and therefore divided by the number of units outstanding).

### Net Present Value (NPV)

The value (in today's money) of a series of future net cash flows that will result from an investment, minus the amount of the original investment.

### Net Tangible Asset Backing (NTA)

A ratio showing the value of company assets attributable to each share on issue – the total assets of a company less its total liabilities and not including intangible items such as goodwill, trademarks etc. NTA is a theoretical measure of what shareholders would receive if their company was liquidated.

### Non-Renounceable Issue

An issue where the right to subscribe to new securities cannot be sold on market or transferred to another shareholder.

### Nominal Value

The face value of a bond.

### Offer

The price or yield of securities to be sold

### Option

The right to buy or sell a commodity or security at an agreed price during a given period of time.

### Par

A bond at par is one whose price is the same as its face value.

### Passive Management

Investing in a managed fund (other pooled investment) that attempts to match the risk/return pattern of a market index.

### Payout Ratio

The percentage of after tax profits paid out to shareholders as dividends.

### P/E (Price Earning) Ratio

An abbreviation for Price to Earnings Ratio. This ratio, which divides the share price by earnings per share, provides a simplistic valuation tool for investors. As a rule of thumb, the higher the P/E ratio, the more expensive the company, hence the reason why "value" investors focus on buying companies with low P/E ratios.

### PIEs

A portfolio investment entity (PIE) is a managed fund that invests the contributions from investors in different types of investments.

### Perpetual Note/Bond

A bond with no fixed maturity date.

### Personalised Service

Personalised service is service provided to clients who are known and are readily identifiable by the Adviser, and either the Adviser has taken the person's individual financial situation into account, or the client would expect their individual situation to be taken into account. The individual's financial situation includes their financial needs, financial goals and tolerance for risk. *Source: www.fma.govt.nz*

### Portfolio

A collection of securities and/or other financial instruments (investments) held by an institution or private individual.

### Preference Shares

Shares that entitle the shareholder to first claim on the profits of a company when it comes to dividend payments and which hold priority over ordinary shares for repayment of capital in the event that the company is liquidated. Preference shares rank below creditors and debenture holders and often carry no entitlement to vote at general meetings except under special circumstances.

### Premium

When the price of a bond/share exceeds its face value.

### Principal

The face value of a bond.

### Prospectus

The document issued by a company or fund prior to the issue of shares to the public. This sets out the terms of the offer, provides the background and financial and management status of the company or fund, and must comply with the NZX Listing Rules and the Securities Act 1978.

### Quotes

The prices at which investors offer to buy and sell shares to each other. Final "buy" and "sell" quotes for each trading day are useful information for investors contemplating the next session.

### Record Date

The date chosen by a company for the determination of the shareholders to whom an entitlement or right relating to its shares may apply.

### Registered Financial Adviser (RFA)

People who advise on Category 2 products only, will be required to be registered but not authorised. Category 2 products include mortgages, life insurance, risk insurance, call debt securities, bank term deposits, and consumer credit contracts and many insurance products. *Source: www.afa.org.nz*

### Registry / Registrar

An institution or organisation that is responsible for keeping record of bondholders and shareholders. If you are the owner of a bond or a share in a company you will be registered by a registry. The registry (or the registrar) ensures that the amount of shares outstanding in the market matches the amount of shares issued and authorised by the company. For bonds, the registrar also ensures that the company's obligation from a bond issue is certified and legal.

### Renounceable Issue

An issue where the shareholder has the option of either subscribing for new securities or selling that right on market.

### Reweighting/Rebalancing

The change in the proportion of individual holdings or weightings to asset classes within a portfolio.

### Rights Issue

An offer of additional shares to existing shareholders in proportion to their shareholding, usually at a discount to the prevailing market price.

### Risk/Reward Trade-off

The amount of return (or expected return) for the risk incurred, or the amount of return sacrificed to lower risk.

### Securities

A general term applied to all shares, debentures, notes and bonds.

### Sell Short

Selling a security that you do not own, but believe will fall in price so that it can be bought back later at a lower price.

### Share Buyback

A share buyback is when a company buys back its own shares from shareholders, reducing the number of outstanding shares.

### SRN

A Security-holder Reference Number is allocated for identification purposes when you buy shares in a company and nominate to hold your shares on a sub-register.

### Stapled Security

Stapled securities are created when two or more related securities are contractually bound together so that they cannot be sold separately. Typically, stapled securities consist of one trust unit and one share in the funds management company. The trust holds the portfolio of assets while the related company carries out the funds management and or development opportunities.

### TCS Bancs

The clearing and settlement system used to settle NZ traded securities.

### Technical Analysis

Research on patterns in past share trading as a basis for predicting future trends in prices. Technical analysis - in contrast to company or fundamental analysis - assumes that prices rise and fall at different rates in patterns that can be exposed. Analysis of past changes enables prediction of future movements.

### Total Return

The return on an investment over a stated period, including realised or unrealised capital gain or loss, and dividends or interest; expressed as a percentage of the investment's value at the beginning of the period. Total return is the true measure of investment results, as distinct from either income, yield or price appreciation alone, since total return measures the total change in value of an investment over a given period (aside from the investor's own withdrawals or additions).

### Traded Volume

The number of shares bought and sold in the market. There are trading volume numbers for each company and each price at which sales are made, and for each trading period.

### Underwriter

An underwriter guarantees to the company that the funds sought through a capital raising will be raised and any shortfall will be taken up by the underwriter. The funds will be available at a specific time.

### Unit Trusts

A form of collective investment constituted under a trust deed.

### Value Share

Shares selling at low prices in relation to company assets, sales and earnings power (the kind of shares favoured by "value investors").

### Volatility

Most investments experience fluctuations in value. The degree of fluctuation is known as volatility. More volatile investments generally have the potential for greater returns, but at a higher risk.

### Warrants

Warrants provide investors with the ability to leverage their exposure to the underlying assets, potentially generating greater returns.

### Yield

Return on an investment compared to either the original investment or the market value of the investment.

### Yield Curve

The graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. A normal yield curve is upward sloping, with short-term rates lower than long-term rates.

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