The Private Office
Glossary of Terms

the private office

Glossary of Terms & Abbreviations

A

Absolute return fund – a fund that has the flexibility and objective of delivering positive returns in all market environments.

Accidental death cover – a payment made under a life insurance policy if death is caused by an accident.

Accrued benefits – benefits earned by a member of company pension plan.

Accumulation units – units where net income is automatically used to purchase more underlying stocks and shares for the fund. This is reflected in the unit price and unit holders will generally benefit from not having to pay an initial charge on the re-invested income.

Active investment – buying and selling shares in order to make a profit on a short-term basis.

Active management – a style of investment management where the fund manager buys and sells shares of a company based on their potential for capital appreciation.

Additional Voluntary Contributions (AVC) – Extra payments a member of an occupational (company) pension plan can make to potentially boost retirement income.

Adviser charge – a charge payable to the adviser for financial advice given. This can be paid directly to the adviser, or, in certain circumstance, can be deducted from the plan.

Aggregate – any total (e.g. the gross national product; the sum of monthly sales).

Alpha – this measures the difference between a fund's actual returns and its expected returns given its risk level. A positive alpha figure indicates the fund has performed better than predicted taking into account the fund objective and level of risk taken. A negative alpha indicates a fund has performed worse than predicted taking into account the fund objective and level of risk taken.

Alternative investments – any investment other than equities and fixed income. Property, private equity and hedge funds are all examples of alternative investments.

Alternative Investment Market (AIM) – an exchange for growing companies that haven't yet qualified for the FTSE. The governing rules over stock entry are less stringent than the requirements to become quoted on the Official List.

Alternatively Secured Pension (ASP) – the technical term for income drawdown after age 75. After age 75 the Government rules on income drawdown plan change which affects the options available. If investors already have an income drawdown plan, taken out before they turned 75, they will either have to purchase an annuity or move into an ASP plan.

Amortisation – the process of paying off a debt liability and accrued interest by regularly paying a series of equal amounts.

Annual Allowance – the maximum an individual can pay into all of their pension plans in any one tax year, whilst still receiving tax relief.

Annualised return – the rate of return on an investment on an annual basis.

Annual Management Charge (AMC) – the annual fee paid by the unit holder that covers the costs of running a fund, usually taken directly from the fund. It is typically expressed as a percentage of the value of the fund.

Annual Percentage Rate (APR) – is the true cost of a loan with all costs included. This enables a direct cost comparison between different lending products.

Annual rate of return – the percentage profit on an investment, measured over a year.

Annuity – a contract guaranteeing, for an agreed period or until death, a series of regular payments in return for a capital sum.

Any occupation – a claim can only be made if the life assured is unable to do any kind of paid work.

Appreciation – an increase in the value of an asset.

Asset – anything owned that has (commercial) value. It can be financial in nature (money, stocks, bonds, shares, invoices, securities), physical (buildings, machinery, cars, land), or qualitative (qualities, skills, things of great intrinsic value).

Asset allocation – the proportion of a fund that is invested in different asset classes, i.e. equities, bonds, cash, property, etc., geographic regions or industry sectors in order to achieve the highest expected returns for the lowest possible risk.

Assets Under Management (AUM) – the total market value of investments managed by a mutual fund, money management firm, hedge fund, portfolio manager, or other financial services company.

Auto enrolment – a law requiring employers to enrol workers into a workplace pension scheme.

Average maturity – a statistic relating to bond funds which provides the weighted-average maturity of all the bonds within a fund. The maturity of a bond is the time at which the principal of a bond is repayable and it ceases to exist.

B

BACS (Bankers' Automated Clearing Services) – a system in the UK. For making payment from one bank account to another - the payment typically takes 3 working days to clear.

Balanced fund – a fund that aims to provide a balanced return of income and capital growth over the long term.

Balance sheet – an accounting statement of a company's assets and liabilities, provided for the benefit of shareholders and regulators. It gives a snapshot, at a specific point of time, of the assets that the company holds and how the assets have been financed.

Bank of England (BOE) – the Central Bank of the UK. In 1997 the Labour government gave the Bank operational independence and they are now responsible for the maintenance of price stability. They set interest rates (through the Monetary Policy Committee) to ensure they meet the inflation target set by the government.

Bankruptcy – when an individual or company has reached the point of being totally incapable of repaying debts. When this happens to a company they will go into liquidation or receivership.

Base rate – the rate of interest on which financial institutions base their lending rates. It is used to set all their other interest rates. Their loan rates will be a certain percentage above the base rate, and their savings rates below. When they change their base rate, this will then automatically change all their other rates.

Basis point – can be used to describe changes in stock and bond prices. Each percentage point change in a bond yield equals 100 basis points. (For example, the difference between interest rates of 10.5% and 10.0% is 50 basis points.)

Bear market – a pessimistic trader who thinks investments are going to fall. A bear will sell their investments in the hope of buying them back at a lower price. A bear market is a period of falling stock prices, over a period of time.

Benchmark – a group of funds whose overall performance is used as a standard to measure investment performance. For example, the benchmark normally used for a fund that invests in UK equities is the FTSE All Share Index.

Beneficial owner – the person entitled to the benefit of property. This can be different to the person who is the legal owner, e.g. where an investment is held by a nominee.

Beta – an important measure of a stock's (or a portfolio's) volatility in relation to a market index, which by definition has a beta of 1.0. A beta higher than this implies greater volatility than the overall market. Thus, a stock with a beta of 1.5 will move up 15% when the market rises 10%.

Bid (also called Bid Price) – the price at which units or shares are bought or sold. This refers to unit trusts only and not OEICs.

Bid-Offer Spread – the difference between the bid and the offer price. The size of the spread is affected by several factors, including current trading volumes and market conditions.

Bond – a debt (IOU) issued by a corporation or government in exchange for the money the bondholder lends it. In most cases, the issuer agrees to pay back the loan by a specific date and makes regular interest payments until that date.

Book cost - (also called book value) is the amount originally paid for a holding of shares or other assets.

Bottom-up – an investment strategy that relies on stock picking, rather than trying to achieve a balanced weighting in various sectors. If a fund uses a bottom-up approach, it will focus on the performance and management of individual companies rather than general economic or market trends. It is the opposite of top down.

BRIC – an acronym used to describe the four countries of Brazil, Russia, India and China. A BRIC fund is a fund that invests in the economies of these four countries.

Bull/bear ratio – a market sentiment indicator based on a poll of investment advisers as to whether they are bullish, bearish, or neutral on the stock market.

Bull market – when stock prices have risen steadily over several months, experts call it a 'bull' market. When stocks trend downward for a long period, it is known as a 'bear' market.

Business cycle – fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and corporate profits. Over a business cycle, real activity rises to a peak (its highest level during the cycle), then falls until it reaches a trough (its lowest level following the peak), whereupon it starts to rise again, defining a new cycle. Business cycles are irregular, varying in frequency, magnitude, and duration. A very strong upwards cycle is usually referred to as a boom, and a deep trough is referred to as a recession or in exceptional cases a depression.

Business Property Relief (BPR) – a relief provided by the UK Government as an incentive for investing in specific types of trading companies, including small unquoted trading companies. It also provides relief from Inheritance Tax (IHT) on the transfer of relevant business assets at a rate of 20% or 100%.

Buy back option – provides the option to buy back life insurance cover after a critical illness claim is made.

Buying power – a way of measuring inflation by looking at how the buying power of money can change over time if prices change.

C

Capital – money or valuable assets which if invested can grow in value or generate an income.

Capital adequacy – a requirement for banks to have a minimum amount of capital to support their operations.

Capital appreciation/growth – the increase in the original value (i.e. principal) of an investment.

Capital Asset Pricing Model (CAPM) – a model that tracks the relationship between risk and expected return. It stipulates that the return on a risky asset is equal to the risk-free rate plus a risk premium.

Capital expenditure – spending on plant, equipment and the like. High levels of spending indicate optimism.

Capital gain – the increase in asset value or investment value from the time it was bought to the time it was sold.

Capital Gains Tax (CGT) – tax that is payable on the profits made on most investment products.

Capital growth – an increase in the value of a fund or asset.

Capital loss – the amount by which an asset has decreased in value since it was acquired.

Capitalisation issue – also known as a scrip issue or Bonus issue. These are new shares issued by a company to its existing shareholders, usually in a mathematical proportion to the number of shares already held. These shares are issued free of charge.

Capital market – a broad term for the markets in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded.

Capped drawdown – a type of income drawdown product that was available before 6 April 2015.

Capped rate – a cap, or ceiling, beyond which the lender's Standard Variable Rate (SVR) will not rise.

Cash back – a payment made by the lender to the home buyer when they take out a mortgage.

Cash dividend – companies distribute profits to shareholders in several ways. The most common way is to pay a cash dividend to shareholders. The dividend is usually paid as an amount per share to investors holding shares on the ex-dividend date (see Stock Dividend)

Cautious fund – a fund that aims to provide a better return than cash over the long term.

Central Bank – the principal monetary authority of a nation, a central bank performs several key functions, including issuing currency and regulating the supply of credit in the economy. The Bank of England is the central bank for the UK.

Centralised Settlement System for Securities Traded (CREST) – an electronic share settlement system operated by CRESTCo for securities traded on the London Stock Exchange. Most shares are now registered on the CREST system and can be traded, settled and held electronically.

Chargeable Lifetime Transfer (CLT) – lifetime transfers of value (broadly, gifts) that are immediately chargeable to inheritance tax. Generally, a lifetime gift is immediately chargeable unless it is an exempt transfer or a potentially exempt transfer (PET)

Clearing House Automated Payments System (CHAPS) – an electronic method of transferring money which guarantees same day payment, and as such may carry a charge.

Closed-ended funds – funds that are incorporated as an investment company and have a fixed fund size.

Collateral – also called security. Collateral is an asset that a borrower agrees to give up to a creditor if they default on a loan agreement; i.e. it serves as security for a loan or other credit.

Collective investment schemes – the pooling of money with that of other investors to benefit from asset sharing. This enables greater asset diversification and the hire of professional fund managers which would not be cost effective for a single investor. Collective investment schemes include unit trusts, investment trusts and open-ended investment companies (OEICs).

Commercial property – includes offices, industrial buildings (such as warehouses) and retail buildings (such as supermarkets and shopping centres). Good commercial property should rise in value over time and generate a steady stream of rental income for investors.

Commission – the fee payable to a broker to cover the cost of executing and settling a transaction. This can also be the payment received by an intermediary on the sale of investment or insurance products.

Commodity – includes any raw material, for example, oil, gold and livestock.

Consolidated Tax Voucher (CTV) – records all tax credits earned by an individual through a particular broker, in a particular tax year.

Consumer confidence – an index of consumer optimism based on surveys of consumers' attitudes about current and future economic conditions. In the US, the Consumer Confidence Index is constructed by The Conference Board.

Consumer expenditure – spending by households on goods and services.

Consumer Price Indices (CPI) – a term used in most countries for their equivalent of the Retail Price Index.

Contract note – a written confirmation of a trade, issued by the broker to the customer for whom the trade was executed.

Contrarian – an investor who takes the opposite position to the majority of those investing in the market.

Conversion option – provides the option to switch to another type of insurance - offering the same level of cover - without any disclosure of further medical information.

Convertible bond – bonds which can be converted into shares in the company that issued them.

Corporate action – an action taken by a company which affects the existing share structure. Such actions may benefit shareholders, such as rights issues or bonus issues. Other types of action are less easy to interpret, such as take-overs or mergers.

Corporate bond – a corporate bond is issued by a company as a way of raising money to invest in its business. The bond is issued in return for a lump sum of money and the company pays a set rate of interest on it to the purchaser for a set period. It is effectively a cheaper way for companies to borrow money than paying interest to a bank for a loan.

Correction – a sharp, short drop in stock prices, after which the market resumes an upward climb.

Correlation – a measure of how closely two variables move together through time.

Coupon – this is the stated rate of interest any fixed income security such as a Bond.

Covered call option – selling the right to purchase shares at a price and within a set period of time. In exchange for which, the option buyer pays a premium.

Creation – the process of increasing a unit trust fund by creating new units is also called 'appropriation'. The unit trust manager pays the trustee for new units at the appropriation price, which is the offer price (on a forward basis) before the addition of any initial charge.

Credit crunch – a sudden reduction in the availability of loans and other types of credit from banks and capital markets at given interest rates. The reduced availability of credit can result from many factors, including an increased perception of risk on the part of lenders, an imposition of credit controls, or a sharp restriction of the money supply. If it persists, a credit crunch can cause bankruptcies and/or slow the economy.

Credit rating – credit ratings measure a borrower's creditworthiness and provide an international framework for comparing the credit quality of issuers and rated debt securities. The top credit rating agencies are Standard & Poor's and Moody's. Ratings are divided into two broad groups - investment grade and speculative (junk) grade.

Credit risk – the chance that a borrower will not repay what is owed.

Critical illness policy – such policies can be stand-alone or written as an add-on to a variety of other contracts, e. g. Term Assurance or Mortgage Life Insurance. They pay out a lump sum in the event of the life assured being diagnosed as having one of the illnesses or conditions listed in the policy (e.g. certain types of cancer, heart attack, etc.) during the plan term.

Crystallised fund – that part of a pension fund from which benefits have been, or are being taken.

Cumulative return – the total return on an investment over a certain period of time.

Currency devaluation – a deliberate downward adjustment in the official exchange rate established, or pegged, by a government against a specified standard, such as another currency or gold.

Currency revaluation – a deliberate upward adjustment in the official exchange rate established, or pegged, by a government against a specified standard, such as another currency or gold.

Currency risk – the risk posed to an investment by fluctuating worldwide exchange rates.

Current account balance – the difference between the nation's total exports of goods, services, and transfers and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities.

Custodian – a bank or other institution legally responsible for holding the assets of another

D

Deal – a sale or purchase transaction.

Debtor – a person or entity, such as a bank or government, that owes a debt to some other person(s).

Decreasing term assurance – a life assurance plan where the premiums paid remain the same throughout the fixed term of the plan, however the cash lump sum payable decreases to reflect the individuals' decreasing mortgage loan. The plan is designed specifically to protect a repayment mortgage. The cash lump sum is paid out if the individual dies during the term. If it has not been paid by the end of the term, the plan ends and nothing is paid out.

Decumulation – the drawdown of assets and income from a portfolio, such as the gifting.

Default – the failure to meet the terms of a credit agreement. Not all defaults mean a total loss. In fact in the majority of cases, bondholders receive some payment. The proportion that this represents is known as the recovery rate.

Deferred shares – part of the ordinary capital of a company. These shares have exactly the same rights as ordinary shares with the exception that they do not get a dividend until certain conditions are met; for example, until a specified date in the future or unless a certain level of profitability is reached.

Defensive stocks – stocks that are less risky than the overall market. Defensive stocks tend to be in non-cyclical sectors such as food retailing and public utilities, where sales do not fluctuate markedly throughout the economic cycle.

Deferment period – the period during which a life assured must be ill or disabled before any benefit will be paid.

Defined benefit plan/pension scheme – also known as 'final salary' pensions, are a type of company pension plan where the benefit at retirement is based on a set formula incorporating level of pay, years of employment and age at retirement.

Defined contribution plan/pension scheme – also known as 'money-purchase' plans, are a type of pension plan where contributions are paid into an account for each individual member. The contributions are invested and the returns (negative or positive) credited to the individual account. At retirement, the benefits available depend on the amount of money in the account.

Deflation – when goods and services fall in price across the broad economy. Deflation is a major concern because it makes debt levels higher and harder to repay.

Dematerialise – to transfer a paper shareholding into an electronic shareholding.

Demographics – the study of trends in population.

Dependant – someone who relies on another person to support them financially. There is a precise definition of who qualifies as a dependant for the purposes of receiving a pension or lump sum on a member's death.

Depreciation – a decline in the value of a currency, financial asset, or capital good. When applied to a capital good, depreciation usually refers to loss of value because of obsolescence, wear, or destruction (as by fire or flood). Book depreciation is the depreciation that tax regulations allow businesses to deduct when they calculate their taxable profits. It is typically faster than economic depreciation, which represents the actual decline in the value of the asset.

Depression – prolonged downturn in economic activity, usually characterised by high unemployment and low production of consumer goods.

Derivative – a financial contract for which the value is based on the value of underlying assets which may not necessarily themselves be traded.

Derivative instrument – generically, derivatives are investments that are 'derived' from something else. Options are derivatives, for instance, because the option has an underlying stock, commodity or other asset on which its price is based.

Dilution adjustment – when buying or selling the investment, the share price of the fund is adjusted to reflect the dilution amount percentage, which is effectively built into the prevailing share price.

Dilution levy – a fee that is applied to a fund to protect the interests of the investors from any adverse effects that purchases or sales can have on its value. The levy is applied to protect the interests of existing/remaining investors from any dilution of the fund caused by dealing costs. It is applied by deduction from the investment prior to the purchase of shares, or by deduction from the proceeds after the sale of shares. The proceeds are always used for the benefit of the fund and thereby the performance that existing/remaining investors receive from that fund.

Disclosable yearly charge/expenses – this is an indication of the actual charges applying to a fund as part of the management process. All funds are required to disclose the charges and expenses applying to the fund to prospective investors, although these are estimates and depend on the actual day to day costs incurred by the fund. These include bank charges, transaction fees, overdraft interest and safe custody fees.

Discount rate – a discount to the Standard Variable Rate (SVR) offered by the lender for the Initial Period.

Discretionary Fund Manager (DFM) – is a professional third party manager working to set parameters in terms of portfolio choices (risk profile, client preferences, etc.)

Discretionary Income – disposable income (after tax income), minus all payments that are necessary to meet current bills to maintain a certain standard of living (such as food, mortgage, insurance etc).

Disposable income – Annual – income left after tax deductions.

Discretionary investment management – a tailored/ bespoke approach to investment management where all investment decisions are delegated.

Disinflation – a fall or slowing in the rate of inflation. Prices are still rising but at a slower rate than before. Not to be confused with deflation, which is when prices are falling.

Disposable income – the amount of income left after such deductions as income tax, pension contributions and national insurance. More generally known as 'take home pay'.

Distributions – the income earned on the underlying investments in collective investment vehicles is passed on to the investors through distributions. These distributions can be either notional distributions or income distributions.

Distribution period – the (usually half yearly) period over which the dividend income of a collective investment is paid.

Diversification – the risk management strategy of investing in a range of asset classes in an effort to reduce risk and increase returns.

Dividend – the distribution of corporate earnings to shareholders.

Dividend cover – the extent to which the last dividend paid out by a company is covered by the profits that the company has made. Dividend cover is calculated by comparing a company's overall profit to its dividend pay-out.

Double dip – a second and subsequent drop in a market or an economy. When an economy slows, then starts to recover, only to falter and slow once more.

Duration – a common gauge of the price sensitivity of a fixed income asset or portfolio to the change in interest rates. It is the weighted average maturity of the present value of all future cash flows of a security.

E

Earnings – also known as profit or net income. Actual earnings show what a company earned including all current revenue and expenses. Operating earnings include only revenue and costs from ongoing operations and exclude one-time non-operational charges such as gains or losses on sales of assets or one-time acquisition costs.

Earnings estimates – analysts' estimates for earnings per share from continuing operations, adjusted to exclude extraordinary items.

Earnings Per Share (EPS) – the profits available to shareholders after all costs, expressed on a per share basis. Analysts use EPS in a number of valuation calculations.

Earnings surprise – the difference between what analysts expected a company to earn and what was actually earned.

Economic and Monetary Union (EMU) – a currency union consisting of most of the members of the European Union, who in January 1999 aligned their monetary policies under the European Central Bank and adopted a common currency, the Euro.

Economic growth – typically refers to an increase in a country's output of goods and services. It is usually measured by changes in real GDP.

Economy – activities related to the production and distribution of goods and services in a particular country or region.

Emerging market fund – a fund that invests in countries with developing economies, such as Brazil, Russia, India and China (BRIC).

Endowment insurance – a contract offering a combination of savings and life insurance. Individuals make regular payments for an agreed period after which they are entitled to a lump sum. This period, called the term, is usually set at anything above 10 years. If the individual dies before the end of the term the endowment pays out a predetermined lump sum. All endowment policies carry charges, which differ among providers.

Enterprise Investment Scheme (EIS) – is a series of UK tax reliefs launched in 1994 in order to succeed to the Business Expansion Scheme. It is designed to encourage investments in small unquoted companies carrying on a qualifying trade in the United Kingdom.

Equity – often referred to as stocks or shares; in investing, this is ownership in a company. Equity fund – a fund that aims to provide long term growth by investing in a portfolio of equities.

Equity release – the release of wealth tied up in property (covering lifetime mortgages and home reversions).

Equity risk premium – the extra return that the overall stock market or a particular stock must provide over the rate on government bonds to compensate for market risk. Government bonds are regarded as risk free because they are guaranteed by the government.

Estate planning – maximising the value of what someone leaves behind after they die by reducing taxes and other expenses.

Ethical investing – choosing investments and other financial products on the basis of various ethical, social and environmental considerations.

European Central Bank (ECB) – the bank that sets monetary policy for the Euro area. Each of the countries taking part in the single currency has representation on the Euro Governing Council. They meet twice a month to set monetary policy. The ECB is located in Frankfurt.

Exchange rate – the number of units of a foreign currency that can be bought with one unit of the domestic currency, or vice versa.

Exchange Traded Fund (ETF) – a security that tracks an index, a commodity or basket of assets like an index fund, but trades on an exchange like a stock and, as such, experiences price changes throughout the day as it is bought and sold.

Ex-dividend – shares quoted after the ex-dividend date (and before the payment date) are termed as being 'ex dividend'. This means that purchasers of shares from this point on will not be entitled to the dividend.

Execution – when a trade instruction, or order, is dealt on the market by a broker it becomes executed. It is at this point that the trade becomes a firm contract between the parties at an agreed price.

Expansion – a phase of the business cycle that extends from a trough to the next peak.

Exposure – the amount of a portfolio invested in a particular asset class, region or stock.

F

Financial Conduct Authority (FCA) – was created by the Financial Services Act (2012) and is directly accountable to HM treasury.

Financial Times Stock Exchange (FTSE) – the 'footsie' is an index of the average share prices on the largest 100 companies quoted on the London stock exchange.

First charge regulated mortgage - legal mortgage ranking in priority ahead of all other mortgages (if any) affecting the land in question, where "mortgage" includes charge and (in Scotland) a heritable security.

Fixed interest – a debt security also known as bonds; securities that carry the rights to a fixed rate of interest and eventual repayment of the capital sum.

Fixed rate – a guaranteed interest rate that ensures that mortgage payment amounts will not change during the Initial period.

Flexible Access Drawdown (FAD) – the latest form of income drawdown which allows individuals to take taxable income from their pension fund with no upper limit.

Flotation – the first issue of shares by a company on the stock exchange, allowing the public to invest.

FSCS - Financial Services Compensation Scheme. The compensation scheme established to protect consumers when financial services firms fail and are unable to meet their financial obligations.

Fundamentals – all the factors about a specific business that an investor might use in deciding whether to invest. These include its profitability, the strength of its balance sheet, the acumen of its management, the prospects of its industry and so forth. These factors generally would not include the current state of the stock market.

Fundamental analysis – an investment approach which involves analysis of a company's earnings history, balance sheet, management, product line and other factors that will affect its profitability and growth. This approach sets fundamental analysts apart from technical analysts, who study previous trading patterns to forecast which direction (up or down) a stock or the market itself will head in the future.

Fund of funds – a fund that invests in other funds in order to reduce the risk of investing in just one fund.

Future – a type of derivative where the contract to buy or sell securities must be exercised on the specified date at the specified price (of the underlying security). If the price has moved against the purchaser significantly, large losses can be incurred.

G

Gain – the amount by which an asset (e.g. share holding) has increased in value since purchase. Gains are realised when assets are sold.

Gearing – the ratio of a company's debt to equity. Gearing is an indicator of a company's ability to service its debt. A company with a high proportion of debt to equity (high gearing) is more vulnerable to fluctuations in business activity. It therefore represents higher risk for equity holders and should offer greater return.

Generally Accepted Accounting Principles (GAAP) – a widely accepted set of rules, conventions, standards and procedures for reporting financial information of a national standard setter.

Gilts – 'Gilt-Edged Securities' are bonds issued by the UK Government, which provide a guaranteed fixed rate of interest and a high degree of security.

Government Actuary's Department (GAD) tables – these tables contain factors that enable the maximum income limits for capped drawdown to be calculated.

Government bond – also known as gilts, are bonds that are issued by the government which pay a fixed rate of interest twice a year. They are considered safe investments as the government is unlikely to go bust or default of the interest payments.

Grey market – trading taking place between the launch of a new share issue and the arrival of official notification of the allotment of shares to applicants.

Gross Domestic Product (GDP) – the total market value of goods and services produced domestically during a given period. The components of GDP are consumption (both household and government), gross investment (both private and government), and net exports.

Gross income – income received before deduction of tax.

Group Personal Pension Plan (GPP) – a type of defined contribution pension which some employers offer to their workers. As with other types of defined contribution scheme, members in a GPP build up a personal pension pot, which they then convert into an income at retirement.

Group Stakeholder Pension Plan - a stakeholder pension scheme which is available to employees of the same employer or of employers within a group.

Growth fund – a fund that invests in companies that offer above average prospects for capital growth due to their strong earnings and revenue potential.

Growth rate – the annual percentage return on investment = 'yield'.

Guaranteed annuity – a policy that converts the pension fund into an income that is paid for the rest of the investor's life.

Guaranteed insurability – entitles the individual to increase their cover without disclosing any further medical, pastimes or occupation details.

Guaranteed premium – the premium is guaranteed to remain the same over the term of the policy unless the amount of cover is altered, or indexation is selected.

H

Hedge fund – a fund that is aggressively managed where the manager takes positions in both safe and speculative opportunities. Most hedge funds are limited to a maximum of 100 investors. For the most part, hedge funds (unlike regular funds) are unregulated because it is assumed that the people investing in them are very sophisticated and wealthy investors.

Hedge/hedging – a technique employed to reduce investment risk.

Her Majesty's Revenue & Customs (HMRC) – is a non-ministerial department of the UK Government responsible for the collection of taxes (previously known as the Inland Revenue), the payment of some forms of state support, and the administration of other regulatory regimes including the national minimum wage.

High yield bond – also know as a 'junk bond' or 'speculative grade bond', is generally regarded as higher risk than gilts or investment grade bonds as they are issued by companies with lower credit ratings. They pay a higher level of interest but also carry a higher risk of default.

Historic pricing – units are priced at the last valuation point and investors therefore know what price they are dealing at.

Holding company – a parent company of a group of companies, or a company that controls a subsidiary company.

Hostile takeover – the takeover of a company where the board of the company are opposed to it and recommend to the shareholders that they reject the offer.

House view – common term for the opinion formed on a particular market, sector or economic issue by an asset management company, investment house or other financial institution as a whole.

I

Illiquid asset – an asset that cannot be quickly converted into cash, for example, property.

In-force – an insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Income – money received from employment (earned income) or investment (unearned income).

Income distribution – the income from underlying investments can be paid out to investment holders through income distributions. Investors can generally choose to take this distribution in cash or reinvest it.

Income fund – a fund that seeks to achieve current income rather than growth of capital.

Income receipts – money received through holding assets such as shares and bonds. This money usually takes the form of dividends or interest.

Income units – investors holding such units are entitled to regular income payments provided that the fund has an excess of income over expenditure. These are known as income distributions and take place at specified times in the year (can be monthly, quarterly, bi-annually or annually).

Independent adviser – a financial adviser who can recommend all types of investment products and providers.

Index – see benchmark.

Index funds – a fund whose investment objective is to mirror the performance of an index. This type of fund is also referred to as a tracker fund.

Indexation – contributions automatically increase each year by a fixed percentage or in line with an index, e.g. National Average Earnings or Retail Price Index (RPI).

Individual Savings Account (ISA) – an ISA allows investors to save money on a regular basis, or invest a lump sum of money, without having to pay income or CGT on the proceeds.

Inflation – the rise in general prices and the reduction in value of money. Inflation is a sustained increase in the general price level. In other words it is the rate at which prices are increasing. It can be measured either monthly, quarterly or annually. It is usually measured by the Retail Price Index (RPI).

Inflation rate – the percentage change in the price level between two consecutive periods. The Retail Price Index (RPI), The Consumer Price Index (CPI) and the Gross Domestic Product (GDP) price deflator are common price indices used to measure inflation.

Inflation risk – the possibility that increases in the cost of living will reduce the returns of a particular investment.

Inflationary expectations – the rate of increase in the general price level anticipated by the public in the period ahead.

Inheritance Tax (IHT) – (in the UK) tax levied on property and money acquired by gift or inheritance.

Initial charge – a sales charge that is paid by the investor at the time of purchase.

Initial interest rate – an incentivised interest rate offered by lenders for an Initial Period to attract new customers.

Initial period – the period of time for which the Initial Interest Rate applies.

Initial Public Offering (IPO) – the first stock sold by a company when it floats on a public stock exchange.

Institutional investor – an institutional investor manages large amounts of money for a big organisation. Mutual fund, pension fund managers and insurance companies are institutional investors.

Interest only mortgage – monthly repayments only cover the interest due on the loan. The original capital amount borrowed remains outstanding and must be repaid in full at the end of the term.

Interest rate – the amount charged for borrowing money.

Insurance policies – a contract which usually provides a lump sum or regular payments on the occurrence of a specified event, e.g. death, illness, etc., in return for payment of regular or single premiums.

Interim dividend – when a company pays dividends more than once a year, dividends other than the final one are called interim dividends. Typically, dividends are paid twice a year, one interim and one final dividend.

Intraday – a term that means 'within the day' and usually refers to prices in financial markets. An intraday price can be any price between the opening and the close.

Investment – an asset, financial product or fund of money, which may generate income or grow in value over a period of time.

Investment Company with Variable Capital (ICVC) – an open-ended collective investment vehicle, similar to a unit trust. The only difference is that ICVCs are companies and not trusts.

Investment grade – a term used to describe borrowers or bonds that meet a certain satisfactory credit quality deemed by credit rating agencies (such as Moody's and Standard & Poor's). They carry credit ratings of BBB/ Baa or above from the credit rating agencies, who do not consider the issuers likely to default.

Investment return – is the change in value of an investment or amount of income generated by that investment over a given time period normally expressed as a percentage.

Investment risk – is the risk that an investment or savings plan will decrease in value either in actual terms or compared to inflation.

Investment trust – is a form of collective investment in a company. Investors' money is pooled and managed by the company, who then invests the capital in a portfolio of companies. This serves to spread the risk. They are close ended in nature and are listed on the Stock Exchange. Shares are dealt at prices determined by supply and demand (as opposed to the value of the company's assets).

ISA - Individual Savings Account -a scheme allowing UK individuals to hold cash, shares and unit trusts free of tax on dividends, interest and capital gains. In 1999, ISA replaced both personal equity plans (PEP) and tax-exempt special savings accounts (TESSA).

Issuer – the company that issued shares (or other securities) to raise capital.

J

Joint venture – an association of companies or individuals to jointly explore, finance or direct an initiative for mutual benefit. The different participants may have different shares in the joint venture, resulting in different levels of profit or loss.

Junk bonds – see 'High yield bond'

K

Key Features Document (KFD) – documents which set out the key features for a particular investment, including for example investment strategies.

Key Investor Information Document (KIID) – an information sheet or pack, which provides the key facts and figures about a fund.

Key Performance Indicator (KPI) – these are measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate.

L

Last trade price – the price of the last quoted trade on the stock exchange today.

Leading economic indicators – a compendium of previously announced economic indicators: new orders, jobless claims, money supply, average workweek, building permits, and stock prices. The report can help indicate near term future trends in the economy.

Leverage – (also known as gearing in the UK) in investment terms refers to borrowing with the aim of increasing gains. Derivatives are a common way for fund managers to increase leverage in a fund.

Level of cover – the degree or scope of protection provided by an insurance contract and/or protection plan.

Level Term Assurance (LTA) – a term assurance policy where the sum insured, the plan term, and the premiums do not alter. They are all determined at the start, so the cover remains the same throughout the plan's term. The sum insured is paid out if the individual dies during the term. If it has not been paid by the end of the term, the plan ends and nothing is paid out.

Liabilities – these are debts or future obligations of monetary value. There are many different types of liability. Company liabilities are recorded in their financial statements.

Lien – this is a right to retain possession of another's property pending discharge of a debt.

Life assured – the individual upon whose life payment of the benefits depends.

Life cover – this is the total level of death benefit protection an individual already has in place, such as the sum insured of any life policies held, any policies linked to their mortgage, and benefits their employers might pay.

Life insured – this is the individual upon whose life a life insurance policy is based.

Life policy – a general term covering a variety of types of personal protection policy. The only commonality is that a payment on death is one of the purposes of the contract.

Lifetime Allowance (LTA) – is a limit on the amount of pension benefit that can be drawn from pension schemes – whether lump sums or retirement income – and can be paid without triggering an extra tax charge.

Liquidation – the winding up of a company no longer in a position to meet its debts or which otherwise wishes to cease trading. When the company's debts have been paid, any assets left over are eventually distributed among the shareholders.

Liquidity – (1) the ability of a bank or business to meet its current obligations; (2) the quality that makes an asset quickly and readily convertible into cash. Liquid assets are ones that can quickly be converted to cash. In markets, liquidity indicates ease of trading. Large companies tend to be more liquid than small ones.

Listed company – a Company which has agreed to abide by the stock exchange's listing rules and whose ordinary shares can be bought and sold on the exchange.

Loan stock – a fixed interest stock that may or may not be secured against all or a specific part of the assets of a company. The interest will be paid whether the company is profitable or not.

Loan to Value (LTV) – a measure of the mortgage loan as a percentage of the value of the property, e.g. a £400,000 mortgage on a house valued at £500,000 has an LTV of 80%.

London International Financial Futures and Options Exchange (LIFFE) – the official UK exchange for trading equity based derivatives.

Long term illness – an illness or medical condition that prevents a person from working. Protection in the event of a long term illness may be in the form of a replacement income or a lump sum.

Long term interest rates – interest rates on loan contracts having maturities greater than one year, but often much longer. Often called capital market rates.

London Stock Exchange (LSE) – is divided into three separate markets; the 'main market' (equivalent to the Official List), the Alternative Investment Market (AIM) and the Techmark. Each has separate rules for entry and is used by companies with different capital raising requirements. Any company wishing to raise public capital in the UK will apply to join one of the LSE markets. Many international companies also raise capital in this way.

Lower earnings limit – this is the minimum level of earnings that an employee needs to qualify for benefits, such as State Pension benefits.

M

Management charges – generally, an initial service charge is paid by the investment holder within the offer price used at the time of purchase. Fund managers may also charge an annual management fee based on a set percentage of the value of the fund (this is paid to the manager directly from the fund).

Market capitalisation – the value of a company's outstanding shares, as measured by the total number of shares times the current price.

Market maker – a member of the Stock Exchange obliged to offer to buy and sell shares in which they make a market. Market makers together define the best bid or offer prices quoted by the market. When private investors buy or sell shares through a broker, a market maker is usually involved.

Market order – an order to buy or sell at the best available market price.

Market value – this is the current value of a share holding, based on the latest quoted market price.

Market Value Adjustment (MVA) or Market Value Reduction (MVR) – is an adjustment which generally takes the form of a charge levied on investors who withdraw part, or all, of their money from a with-profits policy before the policy has reached the end of its term. A reduction is applied to the payment to ensure that the remaining policy holders are not disadvantaged.

Materialised shares – this is when the share certificates are held in paper form.

Maturities – financial instruments that are repaid with interest after a fixed term.

Maxi ISA – an investor can purchase one Maxi ISA in a tax year with a single provider. The investment must include a stocks and shares component with or without a cash and/or life insurance component. If an investor has contributed to a Maxi ISA in a tax year, they can not also contribute to a Mini ISA in that same tax year.

Merger – the amalgamation of two or more companies into one. The assets of the original companies are either transferred to a brand new company with new share structure, transferred to one of the original entities in return for a cash consideration, or pooled and the accounts of the original entities combined.

Mid-cap – companies with a market capitalisation smaller than large-cap companies but larger than small-cap companies. Stock exchanges will usually define the financial size ranges for capitalisation.

Mid price – a price midway between the bid and offer price.

Mini ISA – there are three types of mini ISA:

- Stocks and shares
- Cash
- Life insurance

An investor can hold a maximum of three Mini ISAs in any one tax year but can only invest in one of each type. Each type can be held with a different plan manager. If an investor has contributed to a mini ISA in a tax year, they cannot also contribute to a Maxi ISA in the same tax year.

Momentum – the underlying power or thrust behind an upward or downward price movement.

Monetary policy – the use by government of changes in the supply of money and interest rates to achieve desired economic policy objectives. They aim therefore to influence the level of economic activity. The government may want to use their monetary policy to either boost economic activity (if the economy is in a recession) or perhaps to reduce economic activity (if the economy is growing too fast, causing inflation).

Money laundering – a process whereby money generated by criminal activity is run through a series of financial transactions to hide the original source.

Money markets – a figurative expression for the informal network of dealers and investors over which short-term debt securities are purchased and sold. Money market securities generally are highly liquid securities that mature in less than one year, typically in less than ninety days.

Money market instrument – typically, this is an agreement for short term borrowing or lending, for periods up to 13 months.

Money purchase pension – See Defined contribution plan/pension scheme.

Money purchase annual allowance – a reduced annual allowance that applies to individuals who have flexibly accessed their pension benefits.

Monte Carlo simulation – probability simulation, which is a technique used to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables.

Multi manager – an investment approach where the investment provider appoints specific, often external, fund managers to run a portfolio in order to maximise their individual area of expertise.

Mutual fund – a collective investment scheme that pools money from many investors to purchase securities.

N

Net Asset Value (NAV) – the market value of the total assets of a fund.

Near cash – deposits or investments with similar characteristics to cash.

New issue – this is when a company raises capital through issuing new shares on the stock exchange. Companies can issue shares many times as they build their businesses.

Nil paid shares – a new issue of stock where no payment has yet been made by the shareholders, e.g. rights issue.

Nominee account – a safe custody account for stocks where the nominee holds legal title of the assets on behalf of the investor (who is still the beneficial owner).

Nominal interest rates – the current stated rates of interest paid or earned.

Non-investment insurance contract - a contract of insurance which is a general insurance contract or a pure protection contract but which is not a long-term care insurance contract.

O

Offer price – the price at which units can be bought.

Official List – the list of stocks traded on the main market of the London Stock Exchange, also known as Stock Exchange Daily Official List (SEDOL).

Offset mortgage – an offset mortgage can reduce the monthly payments or shorten the term of a mortgage. The mortgage is offset against the home buyers' savings and current account balances, thereby reducing the amount of interest charged on their outstanding mortgage loan. The payments will go up and down depending on movements to the interest rate.

Ongoing Charges Fee/Figure (OCF) – is the latest term for the total expense ratio (TER) and it gives the most accurate measure of what it costs to invest in a fund. The OCF is made up of the annual management charge (AMC) and other operating costs. It is essentially the percentage of the investment holdings that will disappear in costs every year.

Open-ended funds – funds that have no limit to their size and where new units can be issued and existing units redeemed. Most unit trusts are open-ended.

Open-Ended Investment Companies (OEICs) – see open-ended funds.

Option – a type of derivative where the contract to buy or sell securities may be exercised by the buyer of the option prior to or on the specified date at a predetermined price. If the option is not exercised on or before its specified exercise date it expires and the cost of the option is lost.

Ordinary shares – shares in the ownership of a company. Ordinary shareholders own the company, and so receive varying dividends depending on the profitability of the company.

P

Par – the nominal value or face value, of a stock. It is the amount per share raised by the company when first issuing the shares.

Passive investment – a fund that mirrors the performance of a specific index by holding the components of that index. It aims to 'track' the progress of an index (e.g. FTSE 100) by buying and selling shares in the same proportions as represented on the index or by partially replicating the index. Also referred to as tracker or passively managed funds.

Pending settlement – within a Share dealing account, a trade is said to be 'pending settlement' during the time between the execution date when the order was placed, and the settlement date, when the shares are actually exchanged.

Pension – a tax wrapper used to save for retirement.

Pension annuity rate – determines the amount of regular income at retirement, and bought with the individual's pension fund. The annuity rate will depend on many factors, including their age, health, general economic factors at that time such as interest rates, any annuity guaranteed period, any regular increase to apply each year (escalation) and how many times and when in each year the pension will be paid.

Pension Commencement Lump Sum (PCLS) – a tax free lump sum from a pension scheme.

Pension contract – aims to accumulate sufficient funds to maintain the investors' standard of living when they retire. The fund built through their working life is used to buy an 'annuity', which provides investors with a retirement income.

Pension contribution insurance benefit – a type of insurance that ensures regular contributions will continue to be credited to a pension if the policy holder is unable to work due to sickness or injury.

Pension fund – a reserve of money, contributed to by one or many persons (individually or collectively), e.g. company employees and/or employers, to provide a pension to the person(s) entitled at a later date, usually upon retirement.

Pension plan – a contract where single or regular contributions are invested to build up a pension fund which will be used to purchase a pension.

Pension pot – the amount of money held in a pension plan.

Personal Equity Plan (PEP) – a tax privileged investment account, which was replaced by the ISA.

Personal Pension (PP) – an approved pension plan (i.e. eligible for favourable tax concessions). If the individual is an employee who does not have the opportunity to join a company pension scheme, or if they are self-employed, they can take out a personal pension. The individual will need to make contributions - to be invested by their personal pension provider. These will grow over the years to retirement, and benefit from associated tax relief. A pension will be received on retirement.

Platform – an online service that allows financial advisers or investors to manage investment portfolios.

Portfolio – investment in a range of assets or types of investment vehicles, to spread the risk of possible loss (also known as 'Fund').

Potentially Exempt Transfer (PET) – is an outright gift to another made during a person's lifetime. They may be taxable if the person dies within seven years but have the potential to become exempt from inheritance tax once the donor survives seven years.

Pound cost averaging – a feature of regular savings plans where a fixed amount of money is invested periodically. This helps smooth out the impact of fluctuations in the share price of the investment.

Preference shares – normally provide a fixed income per share, and confer on shareholders the right, ahead of ordinary shareholders, to the return on capital in the event of liquidation of the company.

Premium – the amount the purchaser of an options contract pays to acquire the contract. Alternatively, it is the market price above the true value of the underlying investment. It may also be an amount paid for an insurance contract in the form either of a single payment or a series of regular payments.

Productivity – the amount of physical output for each unit of productive input.

Prospectus – generally published by a company seeking to place a new issue of shares and is designed to give potential investors key facts about the company, including its core business activities and objectives, board of directors and other financial information.

Protection – otherwise known as insurance.

Protection Plans/Policies – these are generally taken out to provide cover for individuals, their family, home/mortgage, business, wealth, by providing cash payments on the happening of a specified event, e.g. death, critical illness, redundancy.

PTM levy – a fixed levy (£1.00 to date) on all trades of value over £10,000 payable to the Takeovers and Mergers Panel of the LSE.

Qualified Recognised Overseas Pension Scheme (QROPS) – is a pension scheme set up outside the UK. It is regulated by the country in which it is established and must be recognised for tax purposes in the country in which it is established. Pension savings can be transferred into a QROPS if the member plans to retire abroad and pension savings will then be subject to the tax regulations in the country chosen, rather than the UK tax regulations.

Quartile ranking – fund ranking broken down into four sections, each 25%; in a sector of 20 funds, the top five funds would be classed as top or first quartile, the next five funds as second quartile; the next five funds as third quartile and the bottom five funds as fourth or bottom quartile.

Quotation – the price at which a market maker will trade securities.

Quote – a price at which a market maker offers to buy or sell shares.

Quoted company – any company whose shares are listed on the official Stock Exchange.

Rally – a small rise in a market that has been generally falling.

Rate of return – the increase in value or level of income generated by an investment over a specified period of time, normally expressed as a percentage.

Real GDP – GDP (gross domestic product) adjusted for inflation. Real GDP provides the value of GDP in constant terms, which is used as an indicator of the volume of a nation's output.

Real income – the value of income after adjusting for inflation.

Real interest rates – interest rates adjusted for the expected erosion of purchasing power resulting from inflation. Technically defined as nominal interest rates minus the expected rate of inflation.

Real rate of return – the rate of investment return after taking into account taxes and inflation.

Rebalancing – making regular adjustments to a portfolio to maintain the desired split between the different types of investment, which will change over time due to differences in the performance of each. Adjusting the mix of investments in a portfolio ensures that it does not become overly dependent on one investment, asset class, or style.

Recession – a phase of the business cycle extending from a peak to the next trough and characterized by a substantial decline in overall business activity - output, income, employment, and trade - of at least several months' duration. As a general rule, though not an official measure, recessions are identified by a decline in real gross domestic product for at least two consecutive quarters.

Recovery – a phase of the business cycle that lasts from a trough until overall economic activity returns to the level it reached at the previous peak.

Redemption – also known as a 'repayment', is a corporate action in which a company repays the loan stock to stockholders.

Redemption date – the date when a gilt or corporate bond matures and the loan becomes repayable.

Redemption yield – the total annualised return owning on a fixed interest security, made up of income, plus any gain, or minus any loss, to redemption.

Reduced pension – if the individual takes a tax-free lump sum from their pension fund on retirement, they will effectively reduce the income received directly from the fund. The smaller the fund, the smaller the annuity (income) the fund will provide.

Registrar – an organisation that maintains the register of shares on behalf of a company. The registrar is responsible for recording changes in share ownership and making adjustments for stock dividends and other corporate actions, e.g. bonus and rights issues.

Reinvestment – where the proceeds of an investment are used to fund a new investment. Also when an income distribution due to a unit holder is used to buy apitional units, rather than being paid out in a cash form. See also Accumulation units.

Relative return fund – this type of fund aims to do better than a given index or a group of similar funds.

Rematerialisation – this is when share certificates held electronically are converted so that the details are held in paper form instead.

Remortgage – the act of transferring a mortgage to a new lender.

Renewal option – provides the option to renew the policy at the end of the initial term - at standard rates - without any further medical disclosure. The premium will be based on the premium rates and the life assured's age at the time they renew their benefit and therefore are likely to go up.

Repayment mortgage – monthly repayments cover the interest and also reduce the outstanding mortgage balance. The loan is repaid in full by the end of the term.

Retail Distribution Review (RDR) – is part of the UK Financial Conduct Authority's agenda of customer protection. RDR aimed to drive structural change throughout the retail investments industry in order to ensure consumers can have confidence in their retirement and investment planning.

Retail Price Index (RPI) – the main domestic measure of inflation in the UK. It measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom.

Retail Service Provider (RSP) – is a market maker who offers prices to buy/sell stock to retail customers.

Retirement Annuity Contract (RAC) – a type of pension scheme that was available to the self-employed, or workers not offered a workplace pension before July 1988. RACs were designed to help these workers build up retirement benefits. Members of these schemes receive tax relief on any contributions that they make.

Revenue – total income generated by a company in any financial period.

Reviewable premium – the premium is generally guaranteed not to change for an initial period, after which it is reviewed regularly and may go up or down.

Rights issue – existing shareholders are offered the chance to purchase optional shares in proportion to their current shareholding. These extra shares are often offered at a lower price than current market value.

Risk – a measure of how much the performance of an investment fluctuates in comparison with a relevant indicator. Generally measured by standard deviation.

Risk appetite – the aggregate level and types of risk an investor or company is willing to assume in its exposures and business activities in order to achieve its business objectives.

Risk premium – the additional return that investors require to hold assets whose returns are more variable than those of riskless assets. The risk can arise from many sources, such as the possibility of default (in the case of corporate bonds), the volatility of earnings (in the case of equities), or changes in interest rates.

S

Salary replacement – an alternative source of income which may be received whilst an individual is unable to work after suffering illness or injury.

Scheme of arrangement – a corporate action in which a company replaces one or more of its lines of security with other securities, cash, or a combination of securities and cash.

Scrip dividend – a benefit distribution in which a company distributes dividends in share form or a combination of shares and cash.

Scrip issue – a free issue of stock to existing shareholders in proportion to their current share holdings.

Second charge regulated mortgage – A type of subordinate mortgage made while an original mortgage is still in effect. For these, you would be offered services in relation to a new first charge regulated mortgage contract.

Sector – the category in which funds or companies are grouped together.

Secured debt – a debt backed up by some collateral. If the debtor defaults on a payment, the creditor may foreclose/ repossess the property used as collateral, he can then sell it to repay the loan.

Securities – a range of investment vehicles including shares, bonds, money market instruments etc.

SEDOL – the identifier used by the stock exchange to distinguish shares and other securities on the 'Stock Exchange Daily Official List'.

Self-Invested Personal Pension (SIPP) – similar to a normal personal pension plan but a SIPP allows the plan holder much greater freedom in what to invest in and for the plan to hold these investments directly. The plan holder can have control over the investment strategy or can appoint a fund manager or stockbroker to manage the investments.

Sequencing risk – also called sequence of returns risk, which is the risk of receiving lower or negative returns early in a period when withdrawals are made from an individual's underlying investments.

Settlement – the payment of cash for securities, or the delivery of securities against payment.

Settlement date – the date on which a trade will be settled. In relation to shares, this is the date on which cash and shares must actually be exchanged by the parties in a trade.

Shares/stocks – a security that represents part ownership or equity in a corporation.

Share certificate – a record of part ownership of a company entitling the owner to a share of future profits of the company, in proportion to the number of shares held.

Share class – companies can issue different classes of share with different rights and obligations attached to them. A typical example is 'A' and 'B' shares, where 'A' shares allow the investor to vote at the company's AGM.

Short-term interest rates – interest rates on loan contract or debt instruments such as Treasury bills, bank certificates of deposit, or commercial paper having maturities of less than one year. Often called money market rates.

Small-cap – companies with a market capitalisation smaller than large-cap and mid-cap companies. Stock exchanges will usually define the financial size ranges for capitalisation.

Small Self-Administered Scheme (SSAS) – pension schemes which are trust-based and established individually, usually by directors of limited companies for specified employees of the company. Since Pension Simplification (also known as A-Day), SSAS has been available for establishment by those who are not in a limited company (i.e. partnerships and families).

Speculative grade bond – see 'High yield bond'.

Spread – this is the difference between the offer price at which units or shares are sold and the bid price at which they are bought back from the public, i.e. - the Market Maker or unit trust manager's bid price is the price at which the investor can sell to him and the Market Maker's offer price is the price that the investor can buy from him and so is the higher of the two. The difference between the two prices is the spread and includes the market makers profit and his costs.

Stamp duty – a tax paid to the HMRC on documents of transfer of certain assets including shares. Stamp duty is also paid on the purchase of property.

Standard & Poor's – an organisation that publishes independent credit ratings for debt issued by sovereign, municipal, corporate and financial sector entities based on their financial strength.

Standard deviation – a statistical measure of the volatility (how much returns deviate up and down from its average return) of a portfolio or asset based on its historical performance. It is the main measure of risk used by the investment industry. The larger the standard deviation, the more volatile the fund over the period measured and therefore the riskier it is considered to be.

Standard Variable Rate (SVR) – the lender's standard interest rate which can go up and down at their discretion. This is the rate that most mortgages revert to at the end of the Initial Period.

Stochastic techniques – stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Stock – a term generally used to represent shares and interchangeable in usage.

Stock dividend – one method of distributing company profits to shareholders (see also cash dividend). Stock dividends give existing shareholders a number of new shares according to their existing share holding. Stock dividends are usually optional so that the investor can choose whether to receive cash or shares, because of their different tax implications.

Stock Exchange Trading System (SETS) – is an electronic order matching system used for trading shares between stock exchange members (brokers and market makers).

Stockbroker – professional who buys and sells shares on behalf of their clients.

Suited occupation – a claim can only be made if the life assured is unable to perform the tasks and duties associated with their own occupation, or an alternative occupation to which they are suited by training and experience.

Sum assured – a secured, guaranteed amount under a life assurance policy to be paid on death.

Surplus – the amount by which a government's total revenues exceed its total outlays in a given period, typically a fiscal year.

Surrender – the termination of a life insurance policy or annuity contract at the request of the policyholder, after which the policyholder receives the cash surrender value, if any, of the contract.

Switch – moving an investment from one fund to another.

Systemic risk – one of the core purposes of the Bank of England is to maintain the stability of the financial system as a whole. When looking at this they are looking for things that may cause systemic risk. That is the risk that an event or the failure of a financial institution may cause a risk to other perfectly healthy institutions because of the links between them. In other words, they are risks to the whole system.

T

Takeover – the gained control of one company by another, through purchase of sufficient stock to acquire a controlling interest. Takeovers may be hostile, where the Board of directors of the receiving company are in opposition to the purchase.

Target pension – the amount of money members would like to receive annually, upon retirement.

Tax Exempt Special Savings Account (TESSA) – replaced by the ISA in 1999 this was a five-year savings account where the interest earned was free of tax so long as the underlying investment was not touched.

Tax-free cash /Tax-free lump sum (TFC) – also known as the Pension Commencement Lump Sum, this is the lump sum benefit that can be taken tax-free from a pension arrangement at the retirement date. The amount is limited by Inland Revenue regulations.

Tax relief – a tax saving allowed by the Inland Revenue whereby payments to, and/or returns from, certain types of investment and savings are free of tax thus potentially increasing the returns, e.g. payments to personal pensions or investments performance from ISA products.

Tax year – the HMRC tax year runs from the 6th of April one year to the 5th of April the following year.

Techmark – one of the three separate markets on the London Stock Exchange. Techmark is specifically for companies in the hi-tech sector.

Term – the period of time a policy, bond or contract is issued for.

Term assurance – a simple and cheap form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.

Terminal illness cover – provides a tax-free payment if the life assured is diagnosed with a terminal illness which is expected to lead to death within a set timeframe.

Tessa only ISA – a TESSA only ISA is a cash ISA intended to receive subscriptions from maturing TESSAs. Amounts subscribed to TESSA only ISAs do not count towards the annual ISA contribution limits.

Total Expense Ratio (TER) – similar to OCF, it provides a more complete picture of the total annual costs involved in running an investment. Total costs may include various fees (purchase, redemption, auditing) and other expenses.

Total permanent disability benefit – a payment made on total and permanent disability - usually defined by the life assured's inability to carry out their own occupation or perform a number of activities of daily living.

Total return – the sum of all gains and losses (capital plus income) of an investment over a period of time.

Tracker funds – funds that are not actively managed by a fund manager but are set up to match the performance of a particular stock market by investing in all or a representative selection of the companies listed in that index.

Tracker mortgage – a type of variable rate mortgage whose interest rate will go up and down in response to changes in another rate - most commonly the Bank of England Base Rate - during the Initial period.

Trade – an agreement between two parties for one party to buy shares from the other.

Transfers (in managers or product providers. and out) – moving an investment between plan.

Transfer value – the value of a pension if transferred to another pension plan.

Trivial lump sum – a lump sum payment made from a small pension pot, to wind up a scheme.

Trust deed – a legal document which establishes a trust.

Trustee – an individual, company or institution, such as a bank, which holds the trust assets on behalf of the beneficiaries of the trust. A trustee may delegate custody responsibilities to a custodian.

Turnover – that part of a company's overall revenue generated by trading activity (rather than investment income or other forms of income).

Transferable securities – covers many asset types, but these are essentially shares and bonds issued by companies, which are freely transferable.

U

Uncertificated stock – stock is uncertificated when it is transferred from a paper shareholding into an electronic shareholding system (CREST).

Uncrystallised fund – that part of a pension fund from which no benefits have been taken.

Uncrystallised funds pension lump sum (UFPLS) – also called a FLUMP, is another way of taking pension benefits without going into drawdown or buying an annuity. An UFPLS can be paid from uncrystallised money purchase funds as a lump sum – there is a 25% tax-free element and the balance is taxed at the member's marginal rate of tax. Members (if their scheme allows) can take their entire money purchase pot as an UFPLS in one go, or take a series of smaller UFPLSs, each of which will have a 25% tax-free element.

Underwriters – usually institutions such as merchant banks, who agree to purchase a company's new issue shares if they are under subscribed, although they charge an underwriting fee for doing this. Their advantage is that the issuing companies are effectively guaranteed the issue money.

Unit linked premium – the premium buys units in a unitised insurance fund and these units are regularly encashed to meet the cost of the insurance. Over time the policy may acquire a surrender value.

Unit price – value of a pooled fund unit. May be expressed as the 'bid', 'mid', or 'offer' price.

Unit trust – a trust fund operated by Unit Trust Managers which is a collective investment vehicle pooling investors' money and therefore spreading the risks involved. It is an open-ended investment and therefore units can be created and cancelled depending on demand.

Unquoted shares – these are shares that are not actually traded on any exchange, and are generally those of smaller companies. For example, the company in question may not meet the listing requirements of the exchange.

Unsecured debt/Unsecured loan – a loan which is not tied to property. In the event of default a creditor would not have a claim to specific property to satisfy the debt. However, a creditor can sue on default and obtain a Court Judgement against the loanee.

Unsecured Pension (USP) – USP is basically the technical term for income drawdown under age 75. It is a way of taking income from part of a pension whilst leaving the rest invested. An example of a secured route in retirement would be an annuity, where a set income is received for the duration of the member's life. Because, with USP, the size of the fund can go down as well as up and individuals can raise or lower the amount of income taken each year, the eventual income in retirement is not defined and therefore it is unsecured.

V

Valuation point – the time at which a fund is valued on a daily basis.

Valuation price – this is the price used for the calculation of units bought and sold since the last valuation point.

Variable rate – a variable rate agreement, as distinguished from a fixed rate agreement, calls for an interest rate that may fluctuate over the life of the loan. The rate is often tied to an index that reflects changes in market rates of interest. A fluctuation in the rate causes changes in either the payments or the length of the loan term. Limits are often placed on the degree to which the interest rate or the payments can vary.

Venture Capital Trust (VCT) – is a highly tax efficient UK closed-end collective investment scheme designed to provide private equity capital for small expanding companies and capital gains for investors. VCTs are a form of publicly traded private equity.

Volatility – (in relation to Shares) – a measure of relative movement of share price during a given period.

W

Waiver of premium – if illness or disability prevents the life assured from working, the monthly premiums are paid on their behalf until the end of the policy term, a specified age or until they are able to return to work. The payments will start after the selected deferment period.

Warrant – this is a form of derivative security that is issued by the company of the underlying share (unlike futures and options) giving the holder the right to purchase shares at a specified price for a fixed or unlimited duration.

Watchlist – a list or portfolio of securities selected by an individual and regularly monitored for possible future investment.

Weighted average charge – the average investment charge of a portfolio given the relative weighting (allocation) of the underlying investment holdings.

Whole of Life (WOL) – polices which are designed to provide a sum of money (the 'sum assured') to a member's family or estate when the member dies. Members can either pay a lump sum at the outset or a premium every month. Whole of life policies are intended to remain in place for the rest of the member's life, however, some policies do not require members to keep paying premiums once they have reached a certain age.

With profits bond – this is a single-premium investment contract that offers a relatively low risk, low-volatility, long-term investment. Lump sum investments are made, the aim being to increase this sum over a period of usually five years or more. The bond is invested in the with-profits fund of a life assurance provider. If withdrawals are made within the first few years, the individual may not receive the full principal - there may be a penalty charge.

Wrap – a financial services product which enables investors to view their whole investment portfolio on one platform.

Y

Yield – the return on a loan or investment, normally stated as a percentage of price.

Yield curve – the relationship formed by plotting the yields of otherwise comparable fixed-income securities against their terms to maturity. Typically, yields increase as maturities lengthen. The rate of that increase determines the 'steepness' or 'flatness' of the yield curve. Ordinarily, a steepening (or flattening) of the yield curve is taken to suggest that short term interest rates are expected to rise (or fall).

Yield to maturity – the internal rate of return of a series of cash flows from a given time until maturity.

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