Boston
Financial Planning

Taking the mystery out of the Jargon

With the recent volatility experienced by share markets around the world, we thought it would be useful to provide an explanation of some financial terms in the context of the current market conditions.

- A **bear market** is a market in which stocks are currently falling in value. It's arguable exactly how much a market has to fall in order to be considered a bear market; however, 10% is typically seen as a guide. The opposite of a bear market is a **bull market**, which is the term often used when share markets are increasing in value.
- The term **asset class** represents a group of securities that share common risk and return characteristics. The main asset classes are shares (both international and Australian), property, fixed interest (or bonds) and cash. Each asset class will offer a different level of return and therefore has varying degrees of associated **risk** (that is, the risk the value of your investment will fluctuate). Shares and property are higher risk (or growth) investments, while fixed interest and cash are lower risk (or conservative investments).
- So what is a **share**? This asset class goes by many names, such as securities and equities which can be confusing, but basically when you buy a share you are buying a portion of that company. If that company performs well, you benefit by growth in the value of the share and often also by dividends. A **dividend** is a payment made by the company to the shareholders, generally based on the company's annual profit result.
- **Fixed interest** investments pay an unchanging rate of interest. They include bonds and money market instruments. When you buy a bond, the organisation that issues the bond agrees to repay the borrowed funds by a specific date and at a specific rate. Before investing into any interest bearing investment, ensure you read the prospectus or product disclosure statement and make sure you understand the amount of risk involved in the investment, who's borrowing and what security they offer.
- Your individual circumstances and goals will help determine which type of asset class you choose to invest in. The **time horizon** is the recommended amount of time for which you should hold the investments and will vary depending on your goals and therefore the type of asset classes you choose. Because of the risk involved, higher growth asset classes have a longer time horizon and should be held for at least seven years to smooth out volatile returns. Conservative investments attract less risk and can be held for shorter amounts of time, say two to three years.
- **Diversification** is an important principal that basically means 'not putting all your eggs in one basket'. Diversifying your investments helps to minimise risk and maximise returns. Not all investments perform in line with each other, so investing in a variety of asset classes and different securities allows you to spread your risk.
- A **managed fund** is an easy way to achieve diversification. A managed fund pools your money with the money of other investors which is then managed by a professional fund manager. A managed fund may allow you to invest in a variety of asset classes using the one vehicle.
- You may have heard the terms **All Ords**, **Dow Jones**, **FTSE** (pronounced 'Footsie'), or **Nikkei** in the financial reports on the news or radio. These are indices that provide a measure of share price movements in the world's share markets.
- The All Ords, for example, is the All Ordinaries index which is made up of the weighted share price of about 500 of the largest Australian companies and provides the predominant measure of the overall performance of the Australian sharemarket. The Dow Jones represents thirty of the largest corporations in America; the FTSE is the UK's equivalent of the All Ords, while Japan's Nikkei represents 225 of the country's top shares. These indices provide a general measure of share market performance and are used as an indicator of the general health of the market.