



The terms we use

This brochure will help you better understand the jargon used within the finance and investment industry.

A

Accumulation phase

The period during which a super fund member's account balance is increasing with accumulated contributions and earnings. The opposite of the pension or drawdown phase.

AFSL

A company requires an Australian Financial Services License (AFSL) to conduct a financial services business. The Australian Securities and Investment Commission (ASIC) assesses industry.

All Ordinaries Price Index

A share price index that measures the market price of publicly listed companies in Australia.

Asset

Item of value, such as cash, investments or property.

Asset allocation

The apportionment of an investment portfolio among different asset classes in accordance with the investment outlook of the investor or investment manager.

Asset class

A category of financial assets that exhibits similar characteristics (e.g. cash, fixed interest securities, property, Australian and international equities).

Asset value

The value of the assets underpinning a security. These may not be fully reflected in the price of a security.

ASX

The Australian Securities Exchange (ASX) is Australia's primary securities exchange where listed investments such as equities, derivatives and fixed-interest securities are traded. It is owned by the Australian Securities Exchange Ltd, or ASX Limited, an Australian public company.

Audit

An examination and verification of a company's financial and accounting records and supporting documents by a professional.

Austerity

A state of reduced spending and increased frugality in the financial sector. Austerity measures generally refer to the measures taken by governments to reduce expenditures in an attempt to shrink their growing budget deficits.

Australian Securities and Investments Commission (ASIC)

The Australian Government regulating body that enforces and regulates company and financial services laws to protect consumers, investors and creditors.

Australian Taxation Office (ATO)

The Australian Taxation Office (ATO) is the principal revenue collection agency of the Australian government. Their role is to effectively manage and shape the tax and superannuation systems that support and fund services for Australians.

B

Bankruptcy

The legal process in which the assets and liabilities of a person deeply in debt are placed with a receiver. The receiver takes control of their finances and helps them clear their outstanding debts. The process may restrict the person's financial dealings in the future.

Bare Trust

A Bare Trust, sometimes referred to as a simple trust, is a trust in which the beneficiary has the absolute right to the capital and assets within the trust as well as the income generated from these assets.

Bear market

A prolonged period in which investment prices fall, accompanied by widespread pessimism. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly.

Benchmark

An index that serves as a reference against which the performance returns of a fund or portfolio is measured. For example, a fund may be compared with the Standard & Poor's 500 Index to assess how it performs over time.

Binding death nomination

A binding death nomination is a written direction to the Trustee that sets out the dependants and /or legal personal representatives that you want to receive your benefit in the event of your death.

Blue chip

Referring to the shares of a leading company that is known for excellent management and strong financial structure. The term has become a generic one for quality securities.

Bond

An investment instrument issued by governments and companies which pays a regular and fixed interest amount for the term of the investment. The invested funds (principal) are repaid at the end of the term (maturity).

Broker

An agent who handles investors' orders to buy and sell securities, commodities, insurance policies or other property. For this service a commission is charged which, depending upon the broker and the amount of the transaction, may or may not be negotiated.

Brokerage

A fee charged by a broker for the execution of a transaction. Or alternatively an amount per transaction or a percentage of the total value of the transaction. Sometimes also referred to as a commission or fee.

Budget

A plan for spending and saving money based on an individual's goals over a certain period of time.

Bull market

A prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery or economic boom.

C

Capital gain

The difference between the purchase price and the selling price of an investment.

Cash flow

A measure of the money a person receives and spends.

Cash Management Trust (CMT)

A pooled investment vehicle for investors who would not individually have access to the professional money market. By pooling funds from various sources, larger volumes of higher yielding short-dated securities can be purchased and the resulting higher returns can then be returned to the trust members. CMTs generally restrict themselves to negotiable instruments of a duration of no longer than six months. As these securities are highly liquid, a CMT can accommodate cash flows, both in and out, on a daily basis, thereby offering small investors a flexibility not present in a traditional fixed rate term deposit.

Commission

A fee, charge, reward or other remuneration, however characterised, whether monetary or otherwise paid to a professional Adviser by the producer of a product that the Adviser has recommended to an individual. As independent financial advisers Hewison Private Wealth will never accept commission.

Commodities

A basic good/raw material such as oil, aluminium, gold, copper, water, natural and gas.

Compounding

Earning interest on interest previously earned.

Compounding of income

Term for income generated by an asset (dividends for equities and coupons for bonds) which, when reinvested, generates its own return.

Concessional contribution

Certain contributions made to superannuation, generally before tax. Includes employer contributions and personal contributions on which a tax deduction is claimed.

Consumer Price Index (C.P.I)

Measures the national inflation rate. The index is measured quarterly (December, March, June and September quarters) and reflects changes in prices (up or down) of a fixed “basket” or list of goods and services.

Cooling-off period

A period during which purchasers of a good or service have the opportunity of deciding not to proceed with a transaction. If this occurs money paid out for the transaction should be refunded.

Credit

An amount of money lent from one person or entity (such as a financial institution) to another, based on the expectation and/or agreement that the money will be repaid with interest.

Credit rating

A measure of a person’s ability to repay debt or credit.

D

Dealer group

The distribution arm typically of funds management groups or banking institutions designed to offer investors financial planning services. Dealer groups often employ large numbers of financial planners, offering them training, licensing and support services. They also often provide financial planners with lists of recommended investment products from which to service their clients.

Debenture

Debentures are a type of debt instrument that are not secured by physical assets or collateral but the general creditworthiness and reputation of the issuer. It is normally issued by companies that pay a regular and fixed interest amount for the term of the investment. The invested funds (principal) are then repaid at the end of the term (maturity).

Debt

The amount owed by a person or entity to lenders.

Diversification

The spreading of investment funds among classes of securities and localities in order to distribute and control risk. This is a fundamental law of investment, meaning simply: 'don't put all your eggs in one basket'.

Dividend

The payment to shareholders in a company of their portion of a company's distributed profits. The portion is based on relative shareholdings.

Dividend yield

A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

E

Employee benefits

Additional benefits received by someone from their employer, such as bonuses and reimbursement for study.

Equity

- a) a synonym for a share (as distinct from fixed interest) investment;
- b) The interest or value that an owner has in an asset over and above the debt against it.

Estate

All assets owned by an individual at death, to be distributed according to the individual's will. As superannuation is controlled by a trustee rather than an individual, it is not counted as an estate asset.

Estate tax

This is a tax levied on the estate of a deceased individual before any distribution is made to heirs. In Australia, estates and the distribution of an inheritance do not attract tax. However other countries, for example the United States and United Kingdom, have specific taxes on both estates and inheritance.

European Union

The economic association of over two dozen European countries that seeks to create a unified, barrier-free market for products and services throughout the continent, as well as a common currency with a unified authority over that currency.

The European Union was formally established in 1993 by the Treaty of Maastricht and was based on the European Economic Community. In 2016, a referendum was held in the UK on its membership with the European Union, in which 51.9% of participants voted to leave.

Eurozone

The collective group of countries that use the Euro as their common currency. The Eurozone came into being in 1999 and originally consisted of 11 countries. As of 2015, 19 countries were part of the Eurozone.

Excess

The amount of an insurance claim which you are required to pay before the insurer becomes liable to pay on the claim. This amount is specified in the insurance policy.

Exchange Traded Fund (ETF)

An ETF is an open-ended managed fund that is listed and traded on major stock exchanges around the world. An ETF seeks to generally correspond to the price and yield performance of a particular index before fees and expenses.

F

Fiduciary Duty

A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property. Also called fiduciary obligation.

Financial Year

Also known as the income year, fiscal year or tax year, running from 1st July through to 30 June.

Financial Adviser Standards and Ethics Authority (FASEA)

FASEA was established in 2017 to determine and set the new education, training and ethical standards of all licensed financial advisers across Australia. The new standards affect the requirements of practicing advisers, as well as new entrants to the profession. Part of the new standard will be a periodic examination that all practicing advisers will be required to complete.

Financial planning

The process a financial planner follows to understand each client's different needs and financial objectives and to recommend an appropriate strategy. There is an established six step financial planning process that all professional advisers follow with every new client:

1. Gather financial information about the client
2. Identify financial and lifestyle goals
3. Identify any financial issues
4. Prepare a financial plan
5. Implement the plan
6. Review and revise the plan at regular intervals or when circumstances change.

Financial Planning Association (FPA)

FPA is the peak professional body for financial planning in Australia. The FPA has an office in each capital city and a network of 31 Chapters across the country, which provide a focus for business networking and professional development activities for more than 12,000 members. FPA practitioner members manage the financial affairs of more than 5 million Australians whose investments are valued at over \$630 billion.

Financial Planning Education Council (FPEC)

FPEC was established in 2011 by the Financial Planning Association (FPA) as an independent body to raise the standards of education in financial planning and to promote the profession as a distinct learning area and career of choice. The Council, comprised of academics and industry professionals, provides advice to the FPA board.

Fixed expenses

Expenses that remain the same, week after week, or month after month.

Fixed interest rate (loan)

Where interest is paid at a constant rate over the term of a loan.

Fixed interest (investment)

Referring to income that remains constant and does not fluctuate, such as income derived from bonds, annuities and preference shares. Any debt security which has a fixed flow of income is known as a fixed interest security.

FoFA

The Future of Financial Advice (FoFA) is a regulatory framework in relation to the provision of financial advice. FoFA became mandatory on 1 July 2013, its objectives being to improve the quality of financial advice in the financial services sector and improve outcomes for retail investors following prominent failures of financial advice firms in the late 2000s.

Futures

Agreement to buy or sell a set number of shares of a specific stock in a designated future month at a price agreed upon today by the buyer and seller. The contracts themselves are traded on the futures market. A futures contract differs from an option because an option is the right to buy or sell, while a futures contract is the promise to actually make a transaction. A future is part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment.

G

Geared assets

Assets purchased with borrowed funds.

Gearing

The concept of borrowing money to fund business/personal operations. Often individuals will “gear” their investments. This means they are borrowing money to purchase assets that they believe will grow in value at a rate higher than the cost to borrow the money over time.

Government bond

A bond that is issued by a government.

Gross Domestic Product – GDP

The monetary value of all the finished goods and services produced within a country’s borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Gross income

The total amount of income earned (from wages or a salary) before any deductions including tax.

Growth assets

A general term for assets such as shares and property that provide investment returns, (comprising both capital growth and income), which outperform inflation. Growth assets compare to debt securities such as fixed interest and/or cash investments.

Growth fund

An investment portfolio that aims to achieve an above average rate of after-tax income and capital growth over the medium to longer term, while adopting a medium risk profile.

A growth fund typically comprises a balanced portfolio of equities, fixed interest, property and cash.

Growth investor

One who seeks capital gain from expected further growth in company earnings. Typically, growth investors care less about price/earnings ratios and other valuation measures and more about earnings growth.

H

Hedge funds

An aggressively managed portfolio of investments that uses complicated investment strategies such as gearing, derivative positions, short/long sell positions etc., with the goal of generating high returns. Hedge funds endeavour to produce superior returns in a falling market.

I

Imputation credit

A shareholder receiving a dividend from a company is entitled to an "imputation credit", which represents tax paid by the company, and is used to reduce the shareholder's tax liability.

Individually Managed Accounts (IMA)

An individual portfolio investing in a broad range of assets and asset classes that takes in to consideration the individual's goals and objectives and risks. Unlike a managed fund an investor in an IMA owns the investments in the portfolio.

Income

Any money a person receives.

Independent

Not controlled by any outside factors, including opinions.

Index

A numerical measure of price movement in financial markets, e.g. the S&P/ASX 300 Index.

Inflation

The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index. Over time, as the cost of goods and services increase, the value of a dollar is going to fall because it will not buy as much as it previously could.

Insurance

Financial protection against financial loss. An arrangement where an insurance company agrees to pay an amount of money to the insurance policy holder if a defined event occurs, in exchange for an insurance premium being paid.

Insurance premium

The payment made to an insurance company in exchange for protection or financial help if (agreed) circumstances or events occur.

Interest

Payment for the use of money; the return earned on invested funds; the amount a borrower pays to a lender for the use of the borrowed money.

Interest free period

This is the time allowed, usually 55 days, in which new credit card purchases can be paid off without being charged interest, provided there are no unpaid amounts on the card from previous payment periods.

Interest rate

The relationship between the amount of money borrowed or lent and the money paid in return for the use of that money. Usually expressed as a percentage per year.

Investment

An asset acquired for the purpose of producing or generating income or capital gains for its owner.

Investment Manager

An organisation that specialises in the investment of a portfolio of securities on behalf of individuals and/or organisations subject to the guidelines and directions of the investor.

Investment managers offer both pooled investment products and individual portfolios to a range of clients including superannuation funds, institutions and individual investors.

Investment style

Investment style refers to the approach that investors, including professional money managers, take in selecting individual investments and assembling portfolios as they seek to achieve their investment goals.

J

Joint account

An account with a financial institution that is in the name of more than one person. A joint account is able to be operated independently by those persons.

L

Leasing

An agreement under which the owner of property allows use of that property for a specified period of time in return for set periodic payments.

Leverage

- a) A synonym for gearing (e.g. using derivative investments to over-invest a portfolio); or
- b) The use of an asset as security for a borrowing.

Liabilities

Debts or financial obligations.

Lifestyle changes

Many people don't realise what a difference a change in their personal circumstances can make to their financial situation. As you move through life each change brings a different set of needs that may impact your overall planning objectives, insurance needs, cash flow requirements and so on. Think of these for a start: getting married, having children, putting children through school, receiving an inheritance, having a debilitating illness, losing a partner, downsizing home when children move out. Each has its own effect on your financial outlook. A professional financial adviser will take your lifestyle now into account when making your plan and you should review your financial plan whenever a major lifestyle change occurs.

Limited recourse

Limits the amount or type of asset that can be recalled to payout a loan, in the event of default.

Liquid assets

Assets held as cash, or in the form of securities, that can be converted into cash quickly and with minimal capital loss (e.g. short-term bank bills).

Loan term

The length of time covered by a loan.

M

Macroeconomics

The study of an economy in its largest sense. Macroeconomics studies gross domestic product, unemployment, inflation, and similar matters. It does not look at the function of individual companies and only tangentially studies individual industries. It is useful in helping determine the aggregate effect of certain policies on an economy as a whole.

Managed fund

An investment that pools money from several investors and uses it to buy a particular type of investment, such as shares.

Managed Investments Scheme

Funds are pooled together to invest in a particular asset that is managed by a third party. When an investor invests in a Managed Investment Scheme they are allocated a number of units. The term "Managed Investment Scheme" is commonly referred to when discussing agricultural investments.

Management Expense Ratio (MER)

A ratio expressing the management, trustee and certain other expenses of a pooled investment fund as a proportion of the net asset value of the fund.

Margin loan

A loan that uses existing assets (namely: shares) as collateral and is usually used to buy more shares.

Margin call

When the value of the collateral in a margin loan falls below the minimum level. In this situation, the borrower needs to either supply more money or sell off some shares to bring the levels back to the minimum amount.

Marginal Tax Rates (MTR)

Australia's sliding tax rates, ranging from 0% to 45% of your salary depending on the salary amount.

Mortgage

A legal agreement under which you take out a loan and use the property being purchased as security for that loan.

N

Net income

The amount of someone's income that they can use or spend, e.g. the amount remaining once tax and payroll deductions are made.

Non-Concessional Contribution

Contributions made to superannuation after tax. This includes personal contributions, spouse contributions and government co-contributions.

Non-Government Bond

A bond issued by a non-government issuer. Usually this is a company or a supranational organisation, like the World Bank. The price of the bond is influenced by the issuer's financial health as well as the outlook for interest rates and inflation. Non-government bonds are normally seen as higher risk than government bonds because of the greater risk that issuer will default on their obligations to pay interest or repay the bond's principal amount on maturity.

O

Optimal portfolio

The portfolio which best meets the investor's needs and risk/return expectations among the range of all feasible portfolios.

Option

An agreement that conveys the right to the holder to buy (receive) or sell (deliver) a specific security at a stipulated price and within a stated period of time. If the option is not exercised during that time the money paid for it (but no more than that amount) is forfeited.

P

Pay As You Go (PAYG)

The system where employers automatically deduct tax from each employee's gross pay each pay period.

PAYG Summary

The summary sent to employees by their employer(s) at the end of each financial year; outlines the total paid to the employee and the amount of tax that was taken out.

Payout ratio

The percentage of earnings paid to shareholders in dividends.

Payroll deductions

Amounts subtracted from gross income for items like employee benefits.

Portfolio

The collection of investment holdings of a particular investor usually with reference to its composition i.e. the mix of different classes of securities, such as bonds, property, shares and cash, or if in a single asset class, the mix of different sectors and stocks.

Portfolio Manager

A person or organisation engaged to manage investment portfolios and make investment decisions on behalf of others.

Premium

The price charged by an insurance company for providing insurance cover.

Product based commissions

Up front and annual commission payments made to financial advisers by fund managers for products held by their clients.

R

Rate of return

How quickly money in a savings or investment account grows.

Retirement planning

As Australia's population ages there will be less money in public coffers to provide pensions in the future. Retirement planning takes into consideration the amount of money you will need to live the life you have in mind. It's not just a plan to create the wealth you will require but also ways to manage your funds into retirement, with the right pensions or other strategies to make sure that your income is properly managed. Retirement planning can begin at any age. Starting planning for retirement early allows you to take advantage of the miracle of compound interest, where your savings earn interest on the interest!

Return

The amount received or earned on money that has been invested.

Risk

In its simplest sense, risk is the variability of returns. Investments with greater inherent risk must promise higher expected yields if investors are to be attracted to them. Risk can take many forms but a major one is Valuation Risk – paying too much for an asset.

Risk management

The various ways or strategies used to manage potential personal or financial loss. The monitoring and controlling of various risk factors in an investment portfolio with the aim of minimising volatility of investment returns.

Risk Profile

Investors are put into broad categories based on their willingness to take risk to achieve higher returns. This information is then used to select the appropriate investments for their profile. At Hewison Private Wealth we prefer to more intimately understand each individual and their particular situation rather than use a blanket risk profile.

Rollover

In relation to superannuation a rollover is when a member transfers some or all of their existing super between funds. In relation to banking, a rollover is the renewal of a loan or extension of a deposit at defined intervals, normally including a revision of the interest rate charged or paid.

S

Salary sacrifice

Part of your before-tax salary can sometimes be 'salary sacrificed' straight into superannuation – which means it is taxed at a beneficial rate (15%) and paid before income tax (lowering your taxable income). Many people find this a valuable way to save for retirement.

Share

An investment that represents part ownership in a company or corporation. Shares include certain rights (e.g. to participate in the appointment of directors, to receive dividends, to receive a share of the surplus assets in a company's dissolution). Different types of shares include ordinary shares, convertible notes and preference shares.

Short selling

Trading shares you don't actually own with the expectation the share price will fall.

Sovereign debt

Money (or credit) owed by any level of government; either central government, federal government, municipal government or local government.

Strategic Asset Allocation

SAA or Strategic Asset Allocation refers to the composition of an asset mix within a portfolio, constructed with the aim of meeting the long-term objectives of a fund rather than being based on short-term views of relative performance of the various asset classes. Usually a benchmark is derived in this fashion.

Superannuation

A long-term savings arrangement that operates primarily to provide income for retirement. Superannuation savings are usually made through trust funds, and if these funds meet prescribed Government standards, they are eligible for tax concessions.

Self-managed superannuation fund (SMSF)

A superannuation fund managed by one person or a small team of individuals. They are regulated by the Australian Taxation Office (ATO) and have to meet numerous regulatory criteria.

Superannuation guarantee

An Australian Government requirement that employers pay a minimum amount, equivalent to a certain percentage of your earnings, into your superannuation fund or SMSF.

Superannuation taxable component

Amounts placed into super before they attracted personal tax and taxed at 15% on arrival into super. At death these amounts will attract tax of 16.5% before they can be paid out, unless paid to a dependent of the deceased.

Super splitting

Legislation allows members to split certain contributions with their spouse, enabling them to boost their spouse's super savings with some of their own. This is particularly beneficial for members of superannuation funds with uneven balances and can help mitigate against the risk of adverse future legislative changes around member account balances. Ask your financial adviser if this course of action is appropriate for you.

Superannuation tax free component

Amounts placed into super after personal tax has been paid, resulting in no further tax payable. When these amounts are withdrawn from super no further tax is payable.

T

Tapering

A gradual winding down of central bank activities used to improve the conditions for economic growth. Tapering activities are primarily aimed at interest rates and investor expectations of what those rates will be in the future. These can include conventional central bank activities, such as adjusting the discount rate or reserve requirements, or more unconventional ones, such as quantitative easing (QE).

Tangible assets

Calculated as the total assets of a company, minus any intangible assets such as goodwill, patents and trademarks, less all liabilities and the par value of preferred stock. Also known as "net asset value" or "book value".

Taxes

Fees placed on income, property or goods which are collected by the government to support costs and programs.

Tax deductible

Referring to an expense which can be offset against taxation liabilities.

Tax file number (TFN)

The personal tax identification number supplied to you by the ATO when you begin working and paying tax.

Term deposit

A deposit with a financial institution for a fixed period and a rate of interest that applies for the duration of the deposit.

Total superannuation balance (TSB)

The concept of 'total superannuation balance', which commenced at the end of 30 June 2017, is a way to value your total super interests on a given date. Your total superannuation balance is relevant when calculating your eligibility for the unused concessional contributions cap carry-forward, the non-concessional contributions cap and the two-or three-year bring-forward period, the government co-contribution and the tax offset for spouse contributions.

Transfer balance cap (TBC)

The transfer balance cap applies from 1 July 2017. It is a limit on the total amount of superannuation that can be transferred into the retirement phase and thus subject to tax exempt earnings. The transfer balance cap starts at \$1.6 million. You can make multiple transfers into the retirement phase if you remain below the cap. All your account balances are included when working out this amount. It does not matter how many accounts you hold these balances in.

Trust fund

A fund whose assets are managed by a trustee or a board of trustees for the benefit of another party or parties. Restrictions as to the type of investments in which the trustee may invest the assets of the trust fund are usually found in the trust deed and in applicable legislation.

Two speed economy

A term used to describe disparity between the performance of mining-related sectors and the states where these are concentrated, while the rest of the country is being impacted by lower performance due to factors such as a decline in manufacturing and record fuel prices.

U

Underwriter

A broker or bank that arranges the sale of an issue of securities on behalf of a client and, if it does not sell all stock to other institutions or investors, itself undertakes to purchase the unsold securities. By using an underwriter, the client is assured of raising the full amount of money it is seeking.

Unlisted securities

Securities that are not listed on an organised stock exchange.

V

Variable expenses

Expenses that are not fixed (and can change).

Variable interest rate

Where interest is paid (received) at a variable rate over the term of a loan (investment).

Volatility

The fluctuation at which share prices move up and down. It also means the possibility of a short term change in the value of an investment, positive or negative, due to market fluctuations. Volatility does not mean a loss or gain of capital.

W

Wealth creation

An umbrella term referring to the strategies you put in place to create a better financial situation for yourself in the future. These strategies can include superannuation, investment, property ownership and a raft of other ways to achieve your end goals, including making sure you have an appropriate level of insurance.

Writing down

Reducing the book value of an asset because it is overvalued compared to the market value. A write-down typically occurs on a company's financial statement, when the carrying value of the asset can no longer be justified as fair value and the likelihood of receiving the cost (book value) is questionable at best.

Hewison Private Wealth – helping you
secure your financial wellbeing.

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Please note: This document has been prepared to help you understand financial industry jargon. The information is of a general nature, individuals should seek specialised advice from a qualified financial adviser

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