Russell Investments

Know your bears from your bulls

OUR PLAIN-LANGUAGE GUIDE TO COMMON FINANCIAL TERMS.

Ever heard someone waxing lyrical about the importance of diversifying your portfolio across asset classes and wished you knew what on earth they were talking about? Check out our plain-language guide to common investing terms, and you'll be holding your own in no time.

Asset class

An asset class is a group of investments that are similar to each other. The most common examples are equities, fixed income, cash and property, but there are a number of other alternatives.

Asset classes can help people work out where they want to invest their money. Different asset classes behave in different ways, and have varying levels of risk and return.

Portfolio

A portfolio is a collection of different financial assets held by an investor. A portfolio is like a pie divided into pieces of different sizes, representing a variety of asset classes and/or investments to reach a particular objective.

The purpose of grouping different types of assets together is to reduce the level of potential risk while maximising the level of potential return.

Diversification

Diversification means spreading your money out among different kinds of assets. That way, if one of your investments doesn't do as well as expected you've still got plenty of other options.

Our multi-asset portfolios, where your super is probably held, are diversified across different asset classes and investment styles—protecting you from excessive volatility.

Did you know?

The Australian Securities Exchange (ASX) has an average daily turnover of AUD$4.685 billion and a market capitalisation of almost AUD$1.7 trillion[1], making it part of 'the $1 Trillion Club', the world's top 16 listed exchange groups[2].

Volatility

Volatility refers to the amount of uncertainty about how much an investment's value moves over time.

A high volatility investment's value has the potential to change dramatically (in either direction) over a short time period. A lower volatility investment's value does not fluctuate dramatically, but changes at a steadier pace over a longer period of time.

Equity

An equity (also called a stock or a share) is an investment where you buy and hold part ownership of a company.

Shareholders are then entitled to receive regular income that represents their portion of the company's profits (dividends).

The value of equities tends to fluctuate considerably, so they are usually considered higher risk than other investments. They are often called growth assets.

Fixed interest

A fixed interest investment offers a set rate of interest for a specified amount of time, with the original investment (principal) repaid at the end of the agreed term (maturity).

Examples include term deposits, bonds, capital notes, debentures and income securities. These have varying levels of risk, but are generally considered lower risk than equities. They are often referred to as defensive assets.

[1] End of Month Values, ASX Historic Market Statistics, 30 November 2016 (accessed 10 January 2017)

[2] All of the World's Stock Exchanges by Size, The Money Project, accessed 10 January 2017

Did you know?

Warren Buffett, arguably the world's most successful investor, once said, "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

Risk/return profile

Risk refers to the possibility that your investment may fall in value or earn less than expected, while a return is the amount of money your investment earns.

In investing, risk and return are almost always correlated, generating an investment's risk profile. The greater the degree of risk, the higher the possible return is likely to be. Low-risk investments are more likely to offer a lower return.

Bull and bear markets

A bull market is one in which prices are either rising or expected to rise. It's characterised by optimism and investor confidence.

A bear market, conversely, occurs when prices fall and widespread pessimism causes the market to continue on a long-term downwards path.

Investors can also be called 'bulls' or 'bears', depending on their attitude to investing.

Index

An index is a measure of market value based on the size of the securities in the market.

The value of an index increases or decreases with changes in the value of the underlying investment it's measuring.

For example, the ASX All Ordinaries Index measures the change in the overall value of the 500 largest companies listed on the Australian Securities Exchange.

Did you know?

When they attack, bears swipe down with their paws and bulls hook up with their horns. That's why those who think the market will go down are called 'bears' and those who think it will go up are referred to as 'bulls'.

WHAT'S YOUR INVESTMENT STYLE?

Your own risk/return profile (that is, how much risk you're prepared to accept in order to seek higher returns) is one of the most important parts of deciding where to invest. Take our Investor Style Quiz to find out what kind of an investor you are.

For more information, please contact your Adviser.

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