

## **Glossary of terms**

The sharemarket can be a complex place. However most of the key terms that describe market processes are relatively easy to understand.

This section gives a guide to some of these key terms – including terms that are found in the sharemarket tables in the newspaper. New terms are added to this list often, to ensure investors have an easy reference place for key phrases and terminology.

### **Accrued interest**

The amount of interest that has accumulated on a debt security since the last coupon (interest payment) date.

### **Arbitrage**

Taking advantage of different rates, prices or conditions between different markets or maturities. This typically involves buying an asset in one market at a lower price and simultaneously selling it in another market for a higher price.

### **Ask yield**

The yield a seller is asking for when selling a debt security.

### **Asset allocation**

Selecting and weighting assets in an investment portfolio.

### **Bears/Bulls**

"Bears" are investors who generally expect share prices to fall. "Bulls" expect prices to rise. When most prices rise over months or years, this is called a "bull market" (and vice versa).

### **Bid**

The price a buyer is willing to pay for a security.

### **Bid-ask spread**

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

### **Bid yield**

The yield a buyer is willing to pay to buy a debt security.

### **Blue chip**

A well-established and financially-sound company with a record of steady or growing profits and dividend payments. Typically, blue chip shares are regarded as less risky than other shares.

### **Bonds**

Medium to long-term debt securities that pay a regular coupon and are redeemed at face value at a fixed maturity date.

### **Bond Premium**

When the price of a bond exceeds its face value.

**Brokerage**

The fee investors pay an NZX Firm for buying or selling shares as instructed.

**Buy on margin**

Use money borrowed from broker or bank to purchase securities.

**Capital note**

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

**Company analysis**

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

**Constituent company**

A company whose securities are included in an index.

**Contract notes**

NZX Firms send these documents to clients confirming their share trades, and showing relevant prices and other details.

**Convertible note**

Security offering investors the option of converting the notes into the equity of the company at a later date usually on a fixed ratio.

**Corporate bonds**

Bonds issued by a company.

**Coupon**

The interest rate paid on a specified date to a debt security holder.

**Coupon date**

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

**Coupon frequency**

How often the coupon is paid each year.

**Debenture**

A type of debt security issued by large companies.

**Debt security**

A security that represents a loan to a company or the Government. Debt security holders normally receive interest payments at regular intervals, and receive their money back on the security's maturity date.

**Default**

When an issuer cannot meet their payment obligations.

**Dividend**

Part of a company's profits paid to shareholders as a reward for their investment in the company.

**Dividend Times Covered**

The number of times a company could have paid its annual dividends from its annual net profit after tax. Note that annual dividends exclude imputation credits. This is different to interest times covered, which shows the number of times a company could pay its interest payments.

**Dividend yield**

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

**Diversification**

The practice of spreading investment across a range of products, securities, companies, business types and locations to reduce risk. Diversification is a core principle in successful investing.

**Earnings per share (EPS)**

The amount of annual profit (after tax and all other expenses) that is attributable to each share in the company. EPS is calculated by dividing profit – future or “prospective” profit is of most interest – by the average number of shares on issue from the company in the current year.

**Efficiency**

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

**Equities**

Another word for shares, which represent part ownership in a company (or a share in a company's “equity”).

**Exchange traded**

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

**Exchange traded fund**

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

**Face value**

The amount that is paid to the security holder on maturity.

**FASTER**

The electronic system used in all buying and selling of shares on NZX Markets. FASTER stands for

Fully Automated Screen Trading and Electronic Registration System.

### **Fairness**

A core principle for everyone in the market, most notably companies which must treat investors fairly on information disclosure and all other matters. A share price is said to be “fair” when both buyers and sellers make rational decisions on the basis of the same information.

### **FIN**

FASTER Identification Number. You need to quote this number to your broker when placing an order to sell securities.

### **Financial statements**

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

### **Float**

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

### **Fundamentals**

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

### **Gross Asset Value**

Means the aggregate market value of the portfolio calculated by the Custodian (other than in relation to unlisted portfolio entities, the value of which shall be an amount equal to cost, or if the Board so elects shall be determined by an independent expert to be agreed between the parties).

### **Gross Return**

The change in the Gross Asset Value of the portfolio during a period after deducting all expenses of the Company incurred in respect of that period (excluding in certain circumstances the management fee and in all circumstances excluding the performance fee, if any, incurred in the relevant period) and adjusting for dividends and other distributions (calculated on a gross or inclusive of imputation credits basis) paid by the Company to the shareholders in the relevant period and also adjusting for the net proceeds of any issue by the Company of equity during the period, all as calculated by the Custodian.

### **Government stock**

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

### **Imputation**

A tax credit shareholders often receive along with dividend income. Dividends are paid out from profits on which the company has already paid tax – and imputation credits mean shareholders do not have to pay tax again on their share of the same profits.

### **Income stream**

The coupon payable to holders of a debt security.

### **Index**

A statistical construction that measures relative or absolute price changes and/or returns for a given group of securities.

The purpose of an index calculation is usually to provide a single number which represents the movements of a variety of prices or rates and is indicative of the behaviour in a market.

### **Indexation**

A relatively passive investment strategy that attempts to replicate the return of a benchmark index in a fund.

### **Index fund**

A fund designed to track the performance of a market index.

### **Initial public offering (IPO)**

The first sale (or issue) of shares to investors publicly, when a company is raising capital to fund the growth of its business. "IPO" and float are terms often used interchangeably.

### **Insider trading**

The illegal practice of using company (or inside) information as a basis for buying or selling shares. Because the information is not available to all investors, this breaches the basic principle of fairness in the market.

### **Interest Times Covered:**

The number of times a company could have paid its annual interest from its earnings before interest (e.g. EBIT). This is different to dividend times covered, which shows the number of times a company could pay its dividends.

### **Issuer**

A company (or other organisation) that has securities listed on an exchange.

### **Limited liability**

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

### **Liquidity**

The ability to easily trade shares, even in large parcels, with prices not pushed up or down by individual trades. In a "liquid market" there are many buyers and sellers willing to trade large volumes

at small price differences.

### **Managed funds**

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

### **Management company**

The firm that organises, manages, and administers a fund.

### **Marketability**

A measure of a security's acceptance in the market – whether it can be easily on-sold by a holder.

### **Market capitalisation**

The value placed on a company by the market. It is the number of shares on issue multiplied by market share price.

### **Market risk**

Market risk is risk inherent in the whole market, often called systemic risk or non-diversifiable risk.

### **Maturity date**

The date at which a bond, or other security matures.

### **Net asset value**

The total assets (securities, cash, and accrued earnings) of a company or fund minus any liabilities, divided by the number of units outstanding.

### **Net tangible asset backing (NTA)**

A ratio showing the value of company assets attributable to each share on issue – the relevant assets are usually tangible assets or equipment, buildings etc that could be readily sold. NTA is a theoretical measure of what shareholders would receive if their company had to be broken up.

### **Nominal value**

The face value of a bond.

### **Offer**

The price a seller is willing to accept for a security.

### **Par**

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

### **Passive management**

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

### **Perpetual bond**

A bond with no fixed maturity date.

### **Portfolio**

A collection of securities and/or other financial instruments under common ownership and management.

### **Principal**

The face value of a bond.

### **Price : earnings ratio (P:E)**

A ratio showing the fundamental relationship between a company's share price and profits. P:Es are calculated by dividing market price by earnings per share – future or “prospective” earnings are of most interest. Company P:Es can be compared to each other and the market average. A low relative P:E signals a general expectation of low profit growth in that company.

### **Quotes**

The prices at which investors offer to buy and sell shares to each other. NZX Dealers enter these quotes into the FASTER system and when they match, a market price is established and the shares traded. Final “buy” and “sell” quotes for each trading day are useful information for investors contemplating the next session.

### **Re-balancing**

Periodic revisions to a portfolio. These are necessary because of the effect of time on the make-up of a portfolio, changes to the constitution of an index, portfolio cash flows or market-driven departures from a target allocation.

### **Rights issue**

A rights issue is when a company issues the right, to existing shareholders of a security, to buy more shares at a given price (usually at a discount to the market price) within a fixed period. Rights issues can be renounceable (the shareholder has the option of selling or transferring their right to buy more shares) or non-renounceable (the shareholder may not sell or transferring their right to buy shares. A non-renounceable rights issue is also called an entitlement.)

### **Securities**

A broad term for shares and other investments that are essentially a legal claim to part ownership of a company and/or to financial entitlements (eg interest payments). By definition, securities can be traded among investors. Shares, capital notes, bonds and some other interest-paying investments are securities tradable through NZX Markets.

### **Sell short**

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

### **Share buyback**

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

### **Technical analysis**

Research on patterns in past share trading as a basis for predicting future trends in prices. Technical

analysis – in contrast to company or fundamental analysis – assumes that prices rise and fall at different rates in patterns that can be exposed. Analysis of past changes enables prediction of future movements.

#### **Traded volume**

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

#### **Yield**

The return on an investment compared to either the original investment amount or, more commonly, the current market value of the investment. Yield is always quoted on an annualised basis.