Glossary

Absolute Return

The return an asset achieves over a period of time. This measure considers the appreciation or depreciation (expressed as a percentage) that an asset - usually a stock or a mutual fund - faces over a period of time. Absolute return differs from relative return in that it is concerned only with the return of the asset, and does not compare it with any other measure.

Accumulated dividend

A dividend due, but not yet paid, to a preferred stock holder. Preference share holders have the privilege of getting dividend from the company even if the company runs losses and is not in a position to pay dividends. The dividend is not paid immediately, but is accumulated and paid off whenever the company records profits.

Alpha

A percentage that is a measure of the returns of a fund with its risk adjusted for. Alpha is calculated from the difference between a fund's actual and expected returns, given its market risk level as measured by its beta. It is also a measure of the value added or deducted by the fund's manager. An alpha of 1 means the fund produced a return 1 per cent higher than what its beta would predict. An alpha of –1 means the fund produced a return 1 per cent lower.

Amortisation

The process of fully writing off indebtedness by instalments of principal over a definite time. It is an accounting procedure that companies follow to write off intangible rights or assets — such as goodwill, patents or copyrights — over the period of their existence. For fixed assets, the term used is depreciation. Both
depreciation and amortisation expenses are subtracted from a company's operating revenues to calculate net income.

**Annual report**

A record published by a company after the end of each financial year giving details of its financial condition. The report, as required by law, is distributed to all shareholders, contains a description of the company's operations, its balance sheet, income statement, auditor's report and other relevant information. An annual report is the most important source of information about a company.

**Annualise**

It is the conversion of *figures* mentioned for a weekly, monthly, or half-yearly basis to a yearly basis. For instance, if growth was 4 per cent for the quarter January to March, it is considered to be running at 16 per cent on an annualised basis. Annualised *figures* are simply linear conversions, and hence, do not involve compounding.

**Arbitrage**

A riskless investment method in which a financial instrument is bought and sold at two different prices and in two different markets. The arbitrageur, the person who engages in arbitrage, or an arbitrage house attempts to profit by selling a security in one market and buying at a different price in another market. Since the price disparity is usually small, large volume purchases are required to make substantial profits. The more perfect and efficient markets are, the more limited the arbitrage opportunities are likely to be.

**Asset**

Any item of value owned by a person or firm that can be converted to cash; these include stocks, accounts receivable, inventory, office equipment, house or car. A firm's assets are listed on its balance sheet, where they are set off
against its liabilities. Some assets like cash, buildings and estates are tangible assets and some like goodwill and copyrights are intangible assets. Companies are required to carry assets in their balance sheets at cost less depreciation. For banks, most assets are in the form of loans, while deposits are liabilities.

**Asset allocation**

The process of dividing a portfolio among major asset categories such as bonds, stocks or cash. The purpose of asset allocation is to reduce risk by diversifying the portfolio.

**Asset management company (AMC)**

“Asset Management Company” means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub regulation (2) of regulation 21. The AMC is a company, floated by the sponsor, is responsible for managing the funds mobilized under the mutual fund.

**Assets under management**

The total market value of assets owned by a mutual fund. The asset level depends on the market valuation and the money held by the mutual fund.

**Average annual yield**

Sum of each year's return on investment, divided by the number of years invested.

**Back-end Load**

Also known as exit load, it is a fee that investors pay when selling mutual funds within a certain number of years. The fee is shown as a percentage and usually decreases yearly when it drops to zero.
**Balance sheet**

It is a summary of a company’s assets and liabilities. The balance sheet is attached to the annual report of the company and is given to all shareholders. These statements are audited.

**Balanced-fund**

A mutual fund that invests its assets into the money market, bonds and equity so as to provide both growth and income.

**Basis point**

A unit that is equal to 1/100th of 1 per cent, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

**Bear market**

A prolonged period of falling prices, accompanied by widespread pessimism. In the stock market a bear is an investor who believes that the markets or a particular stock is going to fall and thus sells the shares with a hope of buying them back as and when the market falls.

**Beta**

It is a measure of a security’s risk. Each security has a certain amount of risk attached to it. Beta tries to measure the risk involved with each security. Investor should choose a security which gives the highest return for a given risk level.

**Blue chip**

A very high security stock. The stock of a large company with a strong record of stable earnings and/or dividend growth and a reputation for high quality management and/or products.
Bond

A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. Bond is a promise to pay the principal along with the interest after a specified period of time.

Bonus share

Extra shares given by a company to its shareholders. Bonus shares are a kind of reward to shareholders. Bonus shares are given on a pro-rata basis to the current share holders of the company.

Book Value

It is the historical cost of assets less liabilities. Book value often differs substantially from market price.

Call money

Money which is loaned, in the call market, which can be demanded for repayment on call.

Certificate of deposit

Short- or medium-term, interest-bearing, debt instrument offered by banks and financial institutions (FIs). It is a negotiable instrument and can be sold at a discount at short notice to raise cash.

Closed-end fund

A mutual fund scheme which is open for a fixed period and sells off its assets at the end of the period and distributes the money thus obtained among unit holders. These units may be bought and sold in the secondary market.

Current yield

It is the ratio of the interest being received to the market price of the security.
Debentures

They are bonds issued by a company to raise capital. There are various kinds of debentures: secured or unsecured, convertible or non convertible.

Debt/equity ratio

The ratio is determined by dividing long-term debt by common stockholder equity. It is one of the most useful financial ratios. Creditors use it to see whether it is safe to lend money to the particular company. The ratio should ideally be around 2 times.

Default Risk

The risk that companies or individuals will be unable to pay the contractual interest or principal on their debt obligations.

Diversification

Investing in a variety of companies and sectors so as to spread risk.

Diversified Fund

A type of investment fund that contains a wide array of securities and is adequately diversified. A mutual fund classified as a diversified fund actively maintains a high level of diversification in its holdings; the fund is thus able to reduce risks, because events that affect one sector are unlikely to have the same effect on other sectors. For example, the fund may restrict its purchases so it is not dominated by companies from one industry or representing one market capitalisation size.

Dividend

Distribution of a portion of a company's earnings, as decided by the board of directors, to a class of its shareholders. It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.
Dividend Adjusted Return

A stock's return, calculated using not only the stock's capital appreciation, but also all dividends paid to shareholders. This adjustment provides investors with a more accurate evaluation of the return received over a specified holding period.

Downside Risk

An estimation of a security's potential to suffer a decline in price if market conditions turn bad.

Earnings growth

The rate at which the earnings per share of the company are growing.

Earnings per Share – EPS

The portion of a company's profits, allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability and is calculated as, \[ EPS = \frac{\text{Net income} - \text{dividends on preferred stock}}{\text{Average outstanding shares}} \]

Effective Annual Interest Rate

An investment's annual rate of interest when compounding occurs more often than once a year.

Effective Yield

The yield of a bond, assuming that investors reinvest the coupon (interest payments) on receiving the payment.

Equity Linked Savings Scheme-ELSS

A mutual fund scheme that offer tax rebates to investors under specific provisions of the Income Tax Act. These schemes are growth oriented and invest pre-dominantly in equity. Their growth opportunities and risks are like those of any equity-oriented scheme.
Exchange-Traded Fund – ETF

A mutual fund that tracks an index, a commodity or basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold.

Fund inception date

The date at which the fund is officially registered with SEBI.

Fund manager

A person who manages a mutual fund scheme.

Fund of Funds

A mutual fund that invests in other mutual funds. This method is also known as multi-management.

Gilts

These are risk-free bonds issued by the government and are safe investment options.

Global Fund

A mutual fund that can invest in companies located anywhere in the world, including in its own country.

Growth-fund

A diversified portfolio of stocks that has capital appreciation as its primary goal, and thereby invests in companies that reinvest their earnings in expansion, acquisitions, and/or research and development.

Hedging

A strategy designed to reduce investment risk. Hedging techniques use call options, put options, short selling, or futures contracts. A hedge can help lock in existing profits. Its purpose is to reduce the volatility of a portfolio, by reducing the risk of loss.
**Hedge fund**

An aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

**Holding period**

The duration of time for which an individual holds a security.

**Inception date**

The date at which a mutual fund scheme opens.

**Income-fund**

A mutual fund that seeks to provide stable current income by investing in securities that pays interest or dividends.

**Index fund**

A portfolio of investments that is weighted the same as a stock-exchange index in order to mirror its performance.

**Inflation**

The rate at which the general level of prices for goods and services is rising.

**Indicated Yield**

The yield that a share of stock would return based on its current indicated dividend. It is calculated by dividing the indicated dividend by the current share price. It is usually quoted as a percentage.

**Initial public offering –IPO**

A company’s first sale of stock to the public.
Intrinsic Value

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.

Leverage

Use of debt to finance operations.

Liabilities

A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Liquidity

Easy conversion of an asset into cash. A market is liquid when it has a high level of trading activity, allowing buying and selling with minimum price disturbance.

Load

A fee or commission charged to an investor when buying or redeeming shares in a mutual fund. The fee may be charged at the time the investor buys into the mutual fund (called a front-end load) or when the investor redeems his/her mutual fund shares (called a back-end load).

Management Fee

A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise.
Money Market Fund

A mutual fund that invests in short-term debt instruments. The fund's objective is to earn interest for shareholders while maintaining a net asset value of ₹10 per share.

Mutual fund

Mutual fund is a mechanism for pooling resources by issuing units to investors and investing funds in securities in accordance with objectives as disclosed in the offer document.

Net asset value - NAV

For mutual funds, NAV is the total value of the fund's portfolio, less liabilities. The NAV is usually calculated on a daily basis. It is the rate at which a mutual fund unit is bought or sold. The net asset value per share usually represents the fund's market price, subject to a possible sales or redemption charge.

Nominal Interest Rate

The interest rate unadjusted for inflation.

Offer Document (OD)

“Offer Document” means any document by which a mutual fund invites public for subscription of units of a scheme. It is a legal document that provides information about a specific mutual fund. Such information includes the fund’s investment objectives, load structure, and subscription and redemption policies. Its purpose is to inform investors of potential risks involved before they invest in a fund, and provides other information that could help investors decide whether the investment is appropriate for them. An abridged offer document of the scheme also accompanies the application form.
Open-Ended Fund

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at net asset value (NAV) related prices which are declared on a daily basis.

Passive Management

An investing strategy that mirrors a market index and does not attempt to beat the market. It is also known as passive strategy or passive investing.

Rate of Return

The gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security, plus the realised capital gains.

Real interest rate

The rate of interest excluding the effect of inflation.

Rebalancing

The process of realigning the weightage for one's portfolio of assets.

Record Date

The date established by an issuer of a security to determine the holders entitled to receiving a dividend or distribution.

Redeem

Cashing in on units by selling them back to the mutual fund.

Registrar or Transfer Agent

The institution that maintains a registry of unit holders of a fund and their unit ownership. Normally, the registrar also distributes dividends and provides periodic statements to unit holders.
Reinvestment Rate

The rate at which cash flows from fixed-income securities may be reinvested.

Relative Return

The return that an asset achieves over a period of time compared to a benchmark. The relative return is the difference between the absolute return achieved by the asset and the return achieved by the benchmark.

Risk-Adjusted Return

A measure of how much risk a fund or portfolio takes on to earn its returns. This is often represented by the Sharpe ratio. The greater the returns per unit of risk, the better it is for the fund or portfolio.

Risk-Free Rate of Return

The theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

Risk tolerance

The willingness of an investor to tolerate the risk of losing money for the potential to make money.

Sales charge

A charge added on to the price of a mutual fund when an investor buys it.

Sale price

The price at which a fund offers to sell one unit of its scheme to investors. This NAV is grossed up with the entry load applicable, if any.

Sector Fund

A mutual fund that makes investments solely in businesses that operate in a particular industry or sector of the economy.


**Standard Deviation**

It describes how much the return on the fund has been deviating from the expected normal returns.

**Switching**

The movement of investments from one scheme to another usually within the family of schemes. An investor may switch schemes because of market conditions.

**Systematic Investment Plan - SIP**

It allows an investor to periodically invest in units by issuing post-dated cheques. Investors, thus benefit from rupee cost averaging.

**Systematic Risk**

The risk inherent in the entire market. It is also known as market risk.

**Systematic Withdrawal Plan – SWP**

A service offered by a mutual fund that provides a payout to the shareholder at predetermined intervals.

**Systematic Transfer Plan - STP**

A plan that allows the investor to provide a mandate to the fund to periodically and systematically transfer a certain amount from one scheme to another.

**Top-Down Investing**

The top-down style of investment management places primary importance on country or regional allocation. Top-down managers generally focus on global economic and political trends in selecting the countries or regions where they expect to find investment opportunities. Only then do they employ a more fundamental analysis of individual stocks in order to make their final selections.
Total Return

Total return includes interest, capital gains, dividends and distributions realised over a given period of time.

Tracking Error

The divergence between the price behaviour of a position or portfolio and the price behaviour of a benchmark primarily used to assess the performance of an index fund.

Trailing EPS

The sum of a company's earnings per share for the previous four quarters.

Transaction Costs

Costs incurred when buying or selling securities. These include brokers' commissions and spreads.

Transfer Agent

A corporation that maintains records of investors, account balances and transactions, cancels and issues certificates, process investor mailings and deals with associated problems (such as lost or stolen certificates).

Trustees

“Trustees” mean the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders.

Unit

The interest of investors in either of the schemes, which consists of each unit representing one undivided share in the assets of the schemes.

Unitholder

“Unitholder” means a person holding unit in a scheme of a mutual fund.
Unsystematic Risk

The risk that is firm-specific; this include losses in the company due to bad management, or fire.

Value Investing

The strategy of selecting stocks that trade for less than their intrinsic value. Value investors actively seek stocks of companies that they believe the market has undervalued. They believe the market overreacts to good and bad news, causing stock price movements that do not correspond with the company's long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated.

Value Fund

A mutual fund that primarily holds value stocks, stocks deemed to be undervalued in price.

Variance

Variance measures the variability (volatility) from an average. This statistic helps determine the risks an investor may take on when purchasing a specific security.

Volatility

It is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. The greater the volatility, the riskier the security is likely to be.

Weighted Average

An average in which each quantity to be averaged is assigned a weight. The weightings determine the relative importance of each quantity on the average.
Yield

Yield is the annual rate of return for any investment and is expressed as a percentage. For stocks, yield can refer to the rate of income generated from a stock in the form of regular dividends. In the case of bonds, yield is the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price:

**Yield to Maturity – YTM**

The rate of return anticipated on a bond if it is held until the maturity date. YTM is considered a long-term bond yield, expressed as an annual rate. The calculation of YTM takes into account the current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupons are reinvested at the same rate.