Tier 1
Glossary
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Tier 1

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Glossary

24-hour call money	A monetary interest for which 24 hours notice must be given by the lender or borrower before any transaction.
ACCC	See Australian Competition and Consumer Commission.
accrued interest	Interest that has been earned or charged and is yet to be paid or charged.
actuary	An insurance or superannuation industry professional trained in mathematics and statistics. Actuaries calculate the probability of life event liabilities for insurance and superannuation providers, monitoring available funds to ensure that the providers maintain adequate assets to meet probable liabilities or obligations.
AFSL	See Australian Financial Services License.
agent	In general, a person employed or appointed to act on behalf of another party (the principal).
agent (insurance)	A person who acts on behalf of a life office and has their primary responsibility to the life office. The term ‘agent’ does not exist under the Financial Services Reform Act 2001.
agent (real estate)	A person authorised to act on behalf of another person in the sale, purchase, letting or management of real property. Real estate agents are licensed under state legislation, normally through state departments of fair trading.
All Ordinaries Accumulation Index	A stock market index that measures movements in both the share price (capital) and dividends (income) of a representative 'basket' of shares listed on the Australian Securities Exchange.
All Ordinaries Index	A stock market index of a large cross section of companies' share prices, listed on the Australian Securities Exchange. The index tracks the movement of the top 500 stocks. The All Ordinaries has a number of sub indices, including: All Resources Index, All Industrials Index, Banking, Media and Transport indices, S&P/ASX20, S&P/ASX50, S&P/ASX100, S&P/ASX200 and S&P/ASX300.
allocation of resources	See economic problem.
annuity	A regular income stream that is guaranteed to be paid over an agreed period. This income stream has to be bought with a lump sum, which can originate from superannuation or non-superannuation monies. The income stream can be tax effective. Annuities are generally purchased through life insurance companies.
appreciation	The increase in the value of an asset caused by economic factors such as inflation, supply and demand, etc.
APRA	See Australian Prudential Regulatory Authority.
arbitrage	To take advantage of different rates, prices or conditions between different markets or maturities. For example, to buy in one market and sell in another in the same commodity in anticipation of differences making the transaction profitable.
ASIC	See Australian Securities & Investments Commission.

asset allocation	The practice of allocating assets of various classes (cash, fixed interest, overseas and local shares and property) in a portfolio or managed fund in accordance with the fund manager or investor's tolerance for risk, perception of the economy, outlook, management style and growth or capital preservation preferences.
asset backing	A useful ration for investors, derived from: net assets of a company ÷ number of issued ordinary shares.
assets	The property (real or intangible) that a person or company owns, or has a right to, from which a benefit can derive. Net assets are assets in excess of liabilities. Liquid assets are assets in cash or readily convertible into cash.
ASX	See Australian Securities Exchange.
ASX code	The code, normally three letters, used by the Australian Securities Exchange to identify individual listed companies. For example, BOR denotes Boral Limited and NAB denotes National Australia Bank.
at a discount	Below face value. A security (e.g. a listed share) is said to be selling at a discount when the market value or price is below the face (par) value or book value of the security.
at a premium	Above face value. A security (e.g. a listed share) is said to be selling at a premium when the market value or price is above the face (par) value or book value of the security.
ATO	The Australian Taxation Office. www.ato.gov.au.
attribution analysis	The process by which the return on an investment portfolio is attributed to the manager's investment decisions. Performance is attributed to decisions regarding security selection, asset allocation and market timing. An attribution analysis will show whether the fund manager's decisions have added or detracted value in a portfolio.
audit	An official examination of a company's financial statements by an independent accountant, called an auditor, to certify that the financial statements as presented comply with the law and in their opinion give a true and fair view of the company's affairs. Audits can also be conducted by the ATO into a company or individual's taxation affairs.
auditor's report	A statement prepared by an auditor that attests to validity of financial information contained in a financial statement, such as an annual report.
Australian Competition and Consumer Commission (ACCC)	The Commonwealth regulatory body that administers the Trade Practices Act 1974 to control anti-competitive practices, promotes competition in the Australian marketplace and provides oversight of the impact of mergers and acquisitions activity on competition in Australian industries. www.accc.gov.au.
Australian Financial Services Licence (AFSL)	A licence required by Australian financial services providers as part of the Financial Services Reform Act 2001 financial regulation reforms. Provision of Australian Financial Services Licenses is administered by ASIC.

Australian Prudential Regulatory Authority (APRA)	The prudential regulator of banks, insurance companies, superannuation funds, credit unions, building and friendly societies in Australia. It sets standards to ensure that institutions remain financially sound and able to meet their obligations to depositors and policy holders.
Australian Securities & Investments Commission (ASIC)	ASIC was established on 1 July 1998 to ensure market integrity and to oversee all disclosure and consumer protection issues in the financial services industry. It replaced the Australian Securities Commission (ASC) and the Insurance and Superannuation Commission (ISC). ASIC was given full responsibility for consumer protection issues arising in the financial system under the general consumer protection provisions in the Trade Practices Act 1974 (which is enforced by the Australian Competition and Consumer Commission). The legislative framework provides specific regulation in certain areas and allows for industry codes of practice in others.
Australian Securities Exchange (ASX)	The principal exchange for trading in shares, bonds and certain other securities in Australia.
authorised capital	The amount of capital, represented by shares, that a company is permitted to issue according to its memorandum of association.
authorised investments	The types of securities or investments that a managed fund is permitted to invest in under its trust deed or constitution.
authorised representative	A person providing financial services or financial product advice may be the holder of a license (principal) or an authorised representative of a license holder. Licensees who provide services through representatives must authorise them to do so. Either an individual or a body corporate (company) may be an authorised representative. An individual or entity may represent more than one licensee, if all licensees consent. Sub-authorisations are not allowed. If the tasks of an employee or agent of the licensee do not constitute ‘providing financial product advice’, then an authorised representative would not be required. Both individuals and bodies corporate (companies) can be authorised representatives.
average weekly earnings (AWE)	Average weekly earnings for all adult employees, as published by the Australian Bureau of Statistics. AWE may be affected by fluctuations in overtime and by variations in the occupational distribution within and across industries.
average weekly ordinary time earnings (AWOTE)	Average weekly ordinary time earnings for full-time adult employees. AWOTE is affected by changes in the composition of the workforce across occupations, but not by fluctuations in overtime and shifts between part-time and full-time work.
Award wages	The minimum rates of pay set for jobs by the Commonwealth Fair Pay Commission and the various state and territory Industrial Relations Commissions.
AWE	See average weekly earnings.
AWOTE	See average weekly ordinary time earnings.
balance date	The date, normally 30 June, to which the annual accounts are officially drawn up.

balance of payments	International trade and capital flows are summarised in the balance of payments accounts, which are a systematic record of all Australia's financial transactions with the rest of the world. There are two major sections in the balance of payments accounts — a current account and a capital and financial account. The Australian balance of payments position is published monthly by the Australian Bureau of Statistics. See current account, capital account, financial account.
balance sheet	A statement of assets and liabilities of an individual or organisation at a given point in time. For individuals, sometimes also referred to as 'statement of financial position'.
balanced fund	Funds where the manager focuses on developing a broad portfolio of investments linked or spread across different markets. The major markets are property, shares, fixed interest and cash. These funds would appeal to investors who wish to diversify within the one investment vehicle. A typical balanced fund holds 50% or more of its assets in growth investments – i.e. Australian or international shares and property, either through property trusts or direct investment.
banana republic	A derogatory term normally applied to underdeveloped economies characterised by: heavy dependence on one or two commodity exports; governments ignorant of, or unwilling to pursue, sound economic management; and political instability. Examples might include Haiti, El Salvador or Cuba, but concrete examples are seldom specified.
bank bill of exchange	A bill of exchange that carries the name of a bank either as acceptor of the bill or as an endorser. In the case of a bank-accepted bill, the bank's name appears on the front of the bill and the bank has agreed to pay the face value of the bill when it matures. In the case of a bank-endorsed bill, the bank's name is stamped on the back of the bill and the bank will pay out if other parties to the bill default. Bills are normally purchased at a discount to their face value and on maturity the face value is paid. The difference equates to the rate of return. Bills are offered in multiple of days, normally 30, 60, 90, 120 and up to 180 days.
basis point	A measurement of fluctuation of an investment return or interest rate, equal to one hundredth of one percent (i.e. 0.01%).
bear	A trader or investor who believes the trend of the market is down. Opposite of 'bull'.
bear market	A falling market. A market in which prices decline sharply against a background of widespread pessimism. The opposite of 'bull market'.
bearish	A view held by an investor that market prices are likely to fall.
benchmark	An index or other market measurement, used by a fund manager or investor as a point of comparison to assess the risk and performance of a portfolio. For example, the All Ordinaries Accumulation Index could be used as a benchmark to compare the performance of a broadly based share fund. The benchmark normally represents a standard or appropriate performance objective for comparison purposes.
benchmark portfolio	A model portfolio developed to promote a standard for measuring a fund manager's risk and return performance, or to reflect on investors' preferred level of risk over a complete market cycle.

beneficiary	A person for whose benefit property or assets are held by trustees, executors or administrators of a deceased estate. A person who is, or will be, a receiver of benefits. In trade finance terms it is the party (normally the exporter) who a Letter of Credit is written in favour of, or who will receive payment if the terms of the agreement are met.
beta	A measure of market sensitivity i.e. the extent to which a share, instrument or portfolio fluctuates with the market; or how changes in a share price correlate to movements in the share market as a whole. For example, the price of a stock with a beta of 1.3 is likely to move 30% more than the market as a whole.
bid	The price at which someone is prepared to buy shares. Also known as 'buyer' or 'buying price'.
bid and offer	The buyer makes a bid price while the offer price is the one requested by the seller.
bill of exchange	As defined in the Bills of Exchange Act 1909 (Cth): 'An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.'
blue-chip stock	Shares in well-established companies known for excellent management, a strong financial structure and sustainable business models. Normally applied to established business in mature industries such as resources or banking.
bond	A debt security, issued by governments and corporations in return for cash, on which interest is paid to the lender for a specified period of time. A bond may be a document recording a loan made to a government or semi-government body for a fixed period of time at a fixed rate of interest.
bonus issue	The issue of bonus or free shares to existing shareholders, normally pro-rated against existing holdings, such as one bonus share for every three shares held.
boom market	A market in which buying demand greatly exceeds selling pressure. Prices rise under these circumstances.
borrower risk	The risk of default that attaches to a borrowing entity, covering management, profitability, non-performance and bankruptcy.
bottom-up analysis	A form of securities analysis that begins with forecasting returns for individual companies, then moves to industries and finally the economy as a whole. The opposite of top-down analysis.
bracket creep	An expression used in relation to income and the marginal tax rate used to assess income tax. Additional income could be assessed in the next highest bracket.
broker	One who buys and sells on behalf of clients in the financial world. Includes share brokers, money brokers, fixed interest securities brokers, insurance brokers and futures brokers. By definition, brokers do not normally take positions themselves - they charge commissions to clients for the business transacted on the clients' behalf.

brokerage	A commission or charge by an intermediary, such as a stockbroker, in a transaction. Also used in reference to payments by fund managers to financial advisers for funds placed in a fund or investment. normally expressed as a percentage of the amount invested. See commission.
budget deficit	A budget deficit occurs when Government expenditure exceeds receipts.
budget surplus	A budget surplus occurs when total government spending is less than revenue. As a rule of thumb, an underlying budget deficit is considered expansionary because the Government is injecting more spending power into the circular flow of income than it is withdrawing. An underlying budget surplus is considered contractionary because the Government is withdrawing more spending power from the circular flow of income than it is injecting. A further distinction is made between discretionary and non-discretionary changes in the budget position. Non-discretionary changes occur because various outlays and receipts of the Budget vary automatically with the state of the economy. Discretionary changes involve deliberate policy changes. The structural budget balance is the gap between what the levels of outlays and revenues would be if output were at its potential level. Changes in the structural budget balance reflect discretionary changes in fiscal policy.
building society	An institution which is a cooperative and operates in a similar fashion to a bank. Building societies can take deposits and provide loans to customers, who are regarded as its members. See credit union.
bulk billing (Medicare)	A system whereby services from registered health care professionals do not incur a fee payable by the patient on delivery. Rather, the health professional bills the Medicare system the 'scheduled fee' directly for the service provided.
bull	A trader or investor who believes the trend of the market is up. Opposite of 'bear'.
bull market	A rising market. Opposite of 'bear market'.
bullish	A view held by an investor that market prices are likely to rise.
business cycle	Business cycles are essentially fluctuating periods of expansion, prosperity, recession and recovery in an economy.
buy back	In relation to unlisted managed funds, a provision requiring the investment manager to repurchase units from unit holders seeking to redeem part or all of their investment.
buy/sell differential	The difference between the buying and selling price of a security. With respect to managed funds such as unit trusts, this includes the difference between the buy and redemption price of units, reflecting the costs incurred in the buying and selling of securities that make up the value of the fund.
call deposits	Monies lodged with a borrower that become due and payable upon 'call' by the lender. The period of repayment after a 'call' has been made can vary from 24 hours to seven days or more.

call option	A call option gives the holder the right, but not the obligation, to buy the underlying asset at the exercise price. Most call options are American and can be exercised on or before a fixed expiry date. In the case of index options, the holder has the right, but not the obligation, to be paid an amount of money based on the amount by which the index exceeds the exercise level. See also put option.
capital	The current value of long-term assets such as property or a business.
capital account	Transfers which arise from funds brought into Australia by migrants or leaving with migrating Australians, and proceeds from sales of offshore non-financial assets owned by Australians (e.g. sale of embassy land overseas) or local non-financial assets sold by foreigners.
capital expenditure	Long-term expenditure on fixed assets, which are included on the balance sheet, as opposed to revenue expenditure, which is included in the profit and loss account.
capital gain/loss	The difference between the sale price of a capital asset and its cost base or value at acquisition.
capital gains tax (CGT)	A tax paid on capital gains. CGT was introduced on 19th September 1985, and applies to most assets purchased after that date, with the important exception of the primary family residence. CGT is applied only on disposal of the asset. If the asset is held for longer than 12 months the eventual tax liability can be reduced. Otherwise, for individuals, the gain is taxed at the individual's marginal tax rate.
capital guaranteed	Referring to an investment produce that includes some form of guaranteed return of capital. The nature of the guarantee varies in format but is, typically, a 'promise to pay' by the life insurance company itself, (i.e. there is no external guarantor). The promise that the original capital and interest when declared are firm dollar amounts, not subject to market fluctuations.
capital raising	The issuing of shares by a company to raise funds for expenditures, leading to commercial growth.
capital secure	See capital stable.
capital stable	A name for an investment portfolio which has a high fixed interest and/or cash component. This creates a relatively stable unit price compared with balanced funds, which typically have a higher exposure to equity markets. Capital stable funds should also be distinguished from capital guaranteed funds, which offer a promised return to the investor, and from capital protected funds, which aim to produce a certain minimum return while allowing a controlled participation in the expected higher gains from growth assets.
capital value	The actual value of an investment or asset, rather than the income it produces.
capitalisation	See market capitalisation.
cash flow	The net amount of money received by an individual or company in a certain period, taking into account receipts (e.g. income) and expenditures.

cash management trust (CMT)	Cash management trusts invest in short-term investments that are highly liquid. CMTs were introduced to Australia in 1980, when market conditions ensured that they attracted a large number of small investors who had previously been unable to take advantage of short-term money market rates. Previously, minimum investments amounts ranged from $50,000-$100,000. CMTs offer a competitive rate of interest with low risk and withdrawal available at short notice (normally 24 hours). The interest rate offered to the investor can fluctuate daily in response to changes in the interest rates of the short-term money market.
cash rate	The rate charged on overnight loans between financial intermediaries. The Reserve Bank of Australia sets the level of the cash rate to influence economic outcomes so as to achieve its objectives in relation to the Australian economy.
cash surrender value	The accumulated savings element at a given point during the a life assurance policy, at which the policy can be cashed in or used as collateral to borrow.
catastrophe risk	The risk that natural disasters will damage or destroy an enterprise's operations. Also often referred to as force majeure events or, more colloquially, as acts of God.
caveat emptor	A Latin expression meaning 'let the buyer beware'.
certificate of deposit	A written certificate by a bank or financial institution stating that a fixed dollar amount has been deposited for a fixed period of time at a pre-determined rate of interest. Certificates of deposit can be negotiable or convertible with a specific maturity at commercial market rates; they can be traded in the secondary market.
CGT	See capital gains tax.
circular flow of income and expenditure	The framework in which the role of the five sectors of the economy (households, companies, financial institutions, governments, overseas) is analysed, i.e. the role each sector has in the flow of inputs, money, and goods and services in the economy.
CLICK XT	The computerised stock exchange trading system that matches buyers and sellers on the ASX. CLICK XT replaced the the previous system, SEATS, in 2006, which had replaced the floor trading system of the Australian Securities Exchange. All stockbrokers are linked to this computer trading system.
CMT	See cash management trust.
collateral cover	The value assigned by ACH to scrip, bank guarantees and/or other approved money market instruments used as security for margins and initial deposits by sellers of options.
commission	The fee or payment made to an agent for services rendered, such as selling your home. Payable by the seller. Sometimes referred to as 'brokerage'. In real estate transactions it is the fee paid to a real estate agent payable by the seller.
commodities/commodity exports	Commodities and commodity exports usually refer to primary products, i.e. largely unprocessed rural and mining products such as wool, wheat, coal, iron ore, alumina, lead, zinc, nickel, copper, gold, and (not so relevant to Australia) coffee, tin, silver. The relative importance of each commodity can be gleaned form the weights assigned to them in the Reserve Bank's Index of Commodity Prices (available on the RBA's website).

completion risk	The risk that a project will not be completed on time, or on budget, due to delays in construction and cost overruns.
compound interest	A method of interest calculation where, in each period, interest is calculated on both the principal and interest previously accrued. See simple interest.
compounding	The mathematical process of determining the final value of an investment or series of investments when compound interest is applied.
Consumer Price Index (CPI)	The most-watched measure of inflation, CPI measures the prices of a basket of goods and services that account for a high proportion of the expenditure of Australian urban households. It is an indicator of the average change in prices over time. When assessing inflation, it is important to distinguish between the headline rate of inflation and the 'underlying' (or 'ongoing' or 'core') rate of inflation. The headline rate refers to the percentage change in the total CPI over the quarter or year in question. The 'underlying' (or 'ongoing' or 'core') rate may refer to one of two methods of measuring inflation. The first method is called the 'exclusion method'. This name refers to the percentage change in various sub-baskets of the CPI over the quarter or year in question. For example, the underlying rate once measured by Treasury (now discontinued) used to exclude all volatile items, items affected by seasonality and items directly affected by Government policy. In the US, the 'core rate' refers to the percentage changes in the CPI excluding food and energy.
contagion risk	The risk that the failure of a bank to settle its payment system obligations will result in the failure of other banks.
contract	A legally-enforceable agreement between individuals or entities.
contract of sale	A written agreement that outlines the terms and conditions for the purchase or sale of property.
convertible note	A loan made to a company at a fixed rate of interest with the right to be either redeemed for cash or converted into ordinary shares at a predetermined date or within a certain period. Publicly-listed companies' convertible notes are normally exchange-traded.
corporate bond	A debt security issued by a corporation into capital markets to raise funds.
correction	A movement in prices that reverses a previous trend. For example, a reduction in share prices after a sustained period of price increases.
cost basis	The original price of an asset that is used in calculating subsequent capital gains or losses on the investment.
cost of capital	The rate a firm must pay to investors in order to induce them to purchase the firm's shares and/or bonds.
counterparty risk	The risk that a counterparty to a transaction or contract will fail to perform or default on their obligation.
country risk	The risk that political or economic events will cause an export credit loss or otherwise cause an export sale to be frustrated.

coupon	A voucher attached to a bond and exchangeable for cash on maturity. The voucher represents the annual rate of interest that the bond issuer promises to pay the bondholder. For example, a 6% coupon would entitle the holder of the bond to receive $6 per annum per $100 invested, paid half-yearly. Coupon generally refers to the face value interest rate on a fixed-interest security (as opposed to the yield).
coupon payments	The periodic interest payments or cash flow from a fixed-interest security.
coupon rate	The annual value of a bond's coupon payments, expressed as a percentage of the bond's face value.
CPI	See Consumer Price Index.
credit union	A cooperative owned and controlled by the people who use its services, which are similar to those of a bank. See building society.
cum distribution/dividend	Refers to a unit in a unit trust, or shares in a listed company, that is trading such that the buyer, rather than the seller, is entitled to receive the next income distribution from the trust, or with shares, the next dividend. Opposite of ex-distribution.
currency devaluation	A reduction in value of a nation's currency against all other currencies. Devaluation increases the cost of imports as importers must pay with a currency that is worth less, and increases the return from exports.
currency option	An option contract that gives the buyer the right (but not the obligation) to buy or sell a specified amount of foreign currency in exchange for another on, or before, a specified future date. Sometimes used to hedge securities held in overseas markets. Also known as an FX option.
currency overlay	An investment management technique aimed at protecting an investor's overseas currency exposure using a dynamic hedging model.
currency risk	The risk of incurring losses in relation to the value of overseas investments as a result of adverse movements in international exchange rates. For example, an Australian investor holding U.S. dollar-denominated securities might suffer a decrease in the value of those securities if the Australian dollar strengthens against the U.S. dollar.

current account	Covers transactions involving trade in goods and services, income flows and current transfers: goods consist of imports and exports of goods; services cover the cost of freight, insurance and tourism, i.e. the amount that Australian travellers spend abroad (debits) or foreign tourists spend in Australia (credits) and royalties received and paid; income comprises the interest and dividends that Australians pay or accrue to foreign investors (debits) and the interest and dividends that Australians receive or accrue on their foreign investments (credits); current transfers cover such credits as withholding tax received from foreigners and debits from foreign aid payments, gifts and pensions to Australians living abroad. The difference between exports and imports of goods and services is the balance on goods and services. The current account balance is derived by adding the balance on goods and services to that of Income and current transfers. The current account deficit usually increases markedly whenever domestic demand expands rapidly because such an expansion draws in imports. The resulting deficit in the current account is funded by capital inflows of various items.
current account deficit	A current account deficit occurs when Australians buy goods and services from the rest of the world, pay interest and dividends, and incur a total bill in excess of their earnings from exports and interest and dividend incomes received.
current asset	An asset that in the form of cash, or that is expected to be converted into cash within the next 12 months.
current expenditures	Short-term expenditures that are completely charged to income in the year in which they occur.
current liabilities	Obligations that are expected to require payment within one year, or the operating period if less than 12 months.
current yield	Annual interest, coupon or dividend divided by market price per bond or share to determine the income return, expressed as a yield based on the current market price. For example, for a share, if the current annual dividend is 10 cents per share and the market price of the share is $2.00, then the current yield (in this case dividend yield) would be 5 per cent.
custodian	An organisation that safeguards and maintains assets, e.g. cash or shares, on behalf of other parties. Custodians exist within public unit trust investments. Unlike a trustee, a custodian is solely responsible for holding assets on behalf of others. It does not own the assets on behalf of beneficiaries (or unit holders in the case of a unit trust). Trustee companies generally also act as custodians, as do many banks.
cyclical low	Markets move in cycles measured from top to bottom. A cyclical low is at the bottom of the cycle.
cyclical stocks	Shares the value of which varies directly with the business cycle. Generally they perform well as business conditions improve and under-perform or decline when business activity decreases. Examples include mining and media companies.
data collection sheet	Most investment advisers and financial planners use a data collection sheet, also known as a needs analysis form or fact finder, which enables client information to be collected in an orderly and sequential way. The data collection sheet also acts as a record to endorse the recommendations that are eventually made to the client by the adviser.

dealer’s licence	A licence originally issued to an individual or organisation by the Australian Securities and Investments Commission. It enabled the licence holder to deal in and give advice on certain securities, and to authorise others to represent them (i.e. an authorised representative). This licence has been replaced by an Australian Financial Services Licence since the inception of the Financial Services Reform regime. See Australian Financial Services Licence.
debenture	A loan made to a company for a fixed period of time at a fixed rate of interest. The loan is secured by a charge over the company's assets and is secured by a trust deed.
debtor	A party that owes money to someone another party.
deed	A document recording an agreement or obligation. Also a document recording a conveyance of property as required by law.
default	Failure to meet a debt payment on a due date.
default rate	The rate that a loan reverts to if it is in default. Is also the rate that a loan reverts to automatically at the end of any fixed interest rate period.
derivative	A financial product in which a party to the arrangement must, or may be required to, provide consideration at some future time. The amount of consideration is determined, derives from or varies, by reference to the value of an underlying asset (such as shares, share price indices, fixed interest securities, commodities and the like) in which a market has been, or can be, established. See exchange-traded option.
director	A person elected by shareholders to establish company policies. In public companies, the board of directors represents the interests of the shareholders.
director's report	A statement, part of the company's annual report, which describes past and likely future performance from the directors' viewpoint. It appears in narrative form.
discount	Buying something at less than face value on the assumption that face value will be received when the securities mature. Opposite to premium. Also where an option is trading for less than its intrinsic value.
discount securities	Non-interest bearing money market instruments that are issued at a discount to face value (e.g. at $90 instead of $100, which would be a 10 per cent discount) with the holder receiving face value when the security matures.
diversification	The distribution of investment funds between different investments to minimise risk. A company can also diversify its products.
dividend	An amount paid to shareholders as interest on their investment based on a company's profitability, and normally expressed on a per share basis.
dividend imputation	Companies distribute their profits to shareholders by way of a dividend. Australian resident shareholders, including companies, trusts and superannuation funds receive a rebate in respect of tax already paid by the company on income paid out as a dividend. This is known as the ‘franking’ rebate or ‘imputation’ rebate. Dividends paid by companies that have paid tax on their profits are known as ‘franked dividends’.

dividend or times cover	The number of times that a dividend is covered by the profit available to ordinary shareholders.
dividend rate or yield	The dividend shown as a percentage of the par value. Dividend yield = dividend per share × 100 ÷ market price
documentation risk	The risk of non-payment due to a defect in a loan agreement or security arrangements as a result of faulty drafting, mitigating circumstances, judicially non-enforceable and faulty collateral, or guarantees that have expired and have not been renewed.
domestic demand	Total spending on final goods and services by Australian residents. It is synonymous with 'domestic spending' and gross national expenditure (GNE). GNE is the statistical measurement of domestic demand where GNE = C + I + G. See gross domestic product.
earnings per share (EPS)	A company's net profit divided by the total number of shares in the company on issue. Normally expressed as cents per share.
EBA	See enterprise bargaining agreement.
economic indicators	Economic statistics that used by governments and private enterprise to monitor and understand what is happening in the economy. Commonly cited indicators include GDP, CPI, average weekly earnings, employment and the unemployment rates, imports and exports, retail sales figures, building approvals and consumer and business confidence indicators.
economic problem	Every economic system is faced with the problem if allocating scarce resources among competing needs. This means each society must address the five fundamental economic questions: • What to produce? • How much to produce? • How to produce? • How to maintain present production and expand future production? • How to distribute total production among members of society?
embezzle	To illegally or fraudulently use money that has been entrusted by another person.
endorse	The practice of verifying ownership of an instrument (such as a cheque or a bill) and confirming the valid transfer of the funds stated on the instrument. The payee of a cheque can endorse a cheque to another party by signing the back of the cheque, authorising payment of the cheque proceeds to a party other than that marked on the cheque by the payer.
enterprise bargaining agreement (EBA)	An agreement between an individual company or enterprise and its employees, often negotiated through the relevant union and registered with the relevant state or Commonwealth industrial relations commission. The agreements are for a fixed period and may involve a variation to existing or award conditions of work.
entry fee	Many funds, in particular market linked funds, charge entry fees as a percentage of the amount invested, which is generally deducted from the gross amount invested. The bulk of this fee is brokerage to agents, advisers or financial planners who introduce investors to the funds.

entry fee (separate payment)	It is possible to maximise a rollover investment by paying any entry fees separately, such that the investor rolls over the full amount of a termination payment rather than an amount reduced by fees. As income and growth from a rollover investment is taxed at lower rates than other savings might pay, this is a good strategy.
EPS	See earnings per share
equilibrium price	In economics, the equilibrium price is the price at which consumers' desire to buy matches producers' willingness to supply. When all goods produced are demanded, the market is said to be 'cleared' and the price which rules is the equilibrium price.
equity (net)	The percentage or amount of an asset which is actually owned. Alternatively, in the context of credit analysis, it refers to the net value of all assets after deduction of all liabilities.
equity (shares)	Shares in a public company are referred to as an equity investment or simply as equities. The shareholder has an investment in the company, rather than simply lending the company funds by way of a debenture or bond on which a fixed rate of interest is paid. A shareholder benefits from the performance of the company.
exchange control	The regulation of money flows in and out the country. Exchange control is the responsibility of the Reserve Bank of Australia.
exchange rate	The price of one currency expressed in terms of another currency. There are as many Australian dollar (AUD) exchange rates as there are foreign currencies. Exchange rates can be fixed, floating, or managed. Under a cleanly floating exchange rate regime, the value of the AUD is determined solely by market forces of demand and supply. Under a fixed exchange rate regime, the RBA stands ready to buy and sell foreign currency in order to maintain the Reserve Bank's desired price. Under a managed or 'dirty' float, the authorities attempt to influence the exchange rate without committing themselves to defending a particular value for the currency.
exchange-traded option (ETO)	Option contracts that are bought and sold on the options market.
exit fees	A fee charged by some investments on withdrawals, which may be a percentage of the money withdrawn or a flat fee. Some managers allow a specified number of fee-free withdrawals. Another type of exit fee, charged by certain nil entry-fee funds, is a sliding scale fee on withdrawals made within a specified period. After this period there is no exit fee.
export risk	The risk of non-payment of an export receivable due to commercial or political events.
face value	Also known as par value, the full amount of a loan or investment before interest is added in or discounted. Interest is calculated on the face value of a loan or security, e.g. a Treasury bond of $100,000 has a face value of $100,000. Face value is the amount that the issuer promises to pay on maturity and is not an indication of current market value.
fact finder	See data collection sheet.

Federal Budget	The Federal Budget outlines projections for the Australian economy and the level of Commonwealth Government revenue and expenditure for the coming year. The Government often announces changes to taxation or spending arrangements at the time of the Budget, although these can be announced at any time.
file note	A note written by the adviser and retained on the client file for the purposes of recording further information about a client, e.g. the reason for a meeting, who instigated the meeting, who was present, what was said, outcomes discussed and agreed etc. File notes are extremely important as a record of events in case of a dispute.
financial account	Covers financial transactions resulting in claims on the rest of the world (assets) or obligations to the rest of the world (liabilities). Examples of capital transactions include offshore borrowings by government and business, and sales and purchases by overseas investors of shares in Australian companies. The financial account is divided into three main sections: direct investment (which gives a 'controlling' 10%+ interest in local companies by foreigners or by Australians in foreign companies); portfolio investment (which covers all lending and borrowing and any share transactions which do not exceed 10% of the capital of a company); and the RBA's foreign reserve assets. Capital flows are not easily classified, and because the accounts must balance, a net errors and omissions term is included.
financial leverage	The magnifying (or diminishing) effect on return on equity from the use of debt in the capital structure. See gearing.
financial risk	The risk that an enterprise will not be able to meet its financing obligations.
Financial Services Guide (FSG)	Required under the Financial Services Reform Act 2001, an FSG provides investors with information such as: who is the licensee and their representative/s; the services provided by the adviser and advisory firm; remuneration arrangements (fees and commissions, bonuses, salary, soft dollar benefits; disclosure of material information; and complaints handling procedures.
financial year	In Australia, the financial year is 1 July to 30 June, although some companies report over different periods, e.g. the end of September or December, often to fit with the reporting requirements of an overseas parent.
first mortgage	A legal document used to protect, or secure, by way of mortgage, a specified unencumbered property, establishing first priority of claim on the title.
first ranking debentures	Loans to registered public borrowers, secured over the specific assets of the borrower, without prior registered charges other than statutory obligations.
fiscal policy	Policy employed by the Commonwealth Government to influence economic activity through its annual budget, 'mini' budgets or periodic economic statements. It is a deliberate changing of government outlays and revenues in order to alter the level of total spending, output and employment in the economy. Fiscal consolidation is the process of reining in budget deficits, and perhaps the size of government in general. It seeks to reduce public debt burdens on the grounds that high levels of government debt boost real interest rates, constrain the accumulation of private capital, and limit gains in living standards.

fixed-interest security	A security that offers constant return throughout the life of the investment. Examples are government bonds, debentures, and bank term deposits.
foreign buyer risk	The risk that a foreign buyer will not pay amounts owing or perform its other duties in an export transaction.
foreign exchange risk	The risk of loss from adverse movements in currency exchange rates.
FSG	See Financial Services Guide.
funding risk	The risk faced by a lender that has made a long-term loan with funds that have been raised on a short-term basis.
futures contract	A legally binding commitment that allows the parties to buy or sell a given commodity at today's price but for future delivery.
FX	Abbreviation for foreign exchange. Also forex.
GDP	See gross domestic product.
gearing	The relationship between ownership (equity) and borrowings. Where gearing is high, the company or individual maintains a high level of borrowings relative to the value of the company or individual's net equity. The higher the gearing, the greater the degree of risk, but also the potential for profit.
gilt-edged	Securities noted for their stability, normally government or semi-government issues. Securities issued by the Bank of England are known colloquially as gilts.
Goods and Services Tax (GST)	The GST is the tax on value-added generated in the production of most Australian goods and services. From 1 July 2000, the rate of tax was set at 10%. The tax is not levied on exports, most unprocessed food, and health and education services. Revenue from the GST, now over $30 billion p.a., is not shown in the Commonwealth Government's annual budget since it is deemed to be a state and territory tax that is levied on their behalf by the Commonwealth Government.
goodwill	An intangible asset attaching to a business because of its good name or established client base.

gross domestic product (GDP)	A measure of the value of final goods and services produced in an economy over a given period of time, usually a quarter or a year. It is derived by adding the value of all domestically produced goods and services available for use which will not be used in further production. It is 'gross' in the sense that no deduction is made for depreciation of capital goods, machinery, etc. It is 'domestic' in the sense that it excludes income earned outside the country. GDP is the most comprehensive measure of national economic production or output. The accounting framework of the National Accounts, in principle, measures GDP in three ways: by output, income, and expenditure flows, and then reconciles the outcomes into a single series. When GDP is adjusted for inflation it is called real GDP. In essence, the Australian Bureau of Statistics attempts to separate pure price changes from changes in volumes of goods and services produced. For technical reasons, the ABS links or 'chains' together its measure of volumes year by year. It calls the series so derived its chain volume measure of GDP. It is important to separate GDP rises caused by inflation from GDP rises caused by higher volumes when one wants to know how rapidly the economy's production of goods and services is expanding (and not just an existing volume going up in price).
growth returns	Another term for capital growth or capital gains. The net return to an investor for income received or capital gains will depend on: the sum of the income received; the sum of capital gains (or losses) realised; the cost of investing (e.g. brokerage fees when selling shares); the marginal tax rate of the investor; the extent to which the income is tax-effective (e.g. franking credits from listed shares); and the ability of an investor to use the existing tax rules to reduce their tax liability on any realised capital gains.
growth stock	A company regarded as having good prospects for capital growth.
GST	See Goods and Services Tax.
hedge	A transaction that reduces or offsets the risk of a current holding. A bought put can act as a hedge for a current share holding.
hedging	A financial arrangement where a potential financial loss is partially or fully offset by a corresponding gain. Hedging is a form of insurance because it mitigates risk. Futures and options markets offer the opportunity to hedge on various commodities and instruments such as gold, interest rates, currencies and shares.
income distribution	A payment, at regular intervals, of income to investors in a particular investment.
income returns	A way of differentiating between investments, indicating whether they are primarily income producing, or whether returns are mainly in the form of capital growth.
index	A numerical measurement of price movement in financial markets.
inflation	A rise in the general level of prices. Inflation causes money to lose its purchasing power because more money is needed to purchase the same volume of goods and services. Not to be confused with 'deflation', which occurs when there is a fall in the general price level. Deflation is popularly used to describe a situation in which the inflation rate is falling, but this should be accurately termed 'decelerating inflation' or 'disinflation'. The context should make the usage of terms clear.

inflation rate	The annual inflation rate refers to the percentage increase in the Consumer Price Index over the period to a given quarter from the corresponding quarter a year earlier.
infrastructure	The range of services considered essential to support a modern economy, such as roads, railways, water systems and power stations. Semi- and local-government authorities often borrow funds for infrastructure purposes, to finance the construction of community necessities such as roads or drainage systems.
institutional investor	An organisation whose primary purpose is to invest its own assets or those held by it in trust for others. The term includes pension funds and insurance companies.
insurance agent	See agent (insurance).
insurance bond	An insurance policy that, as an investment, can offer tax benefits due to the fact that the insurance company pays tax year by year. If held for 10 years or more, the proceeds are generally free of further income tax liability to an individual policyholder.
intangible property	Assets that generally do not exist in material form, e.g. patents, copyrights, reputation, brand loyalty and goodwill.
interest	The cost of borrowing or the reward for lending. Generally, interest rates are expressed as the percentage repayable annually of the principal, which is the amount borrowed or lent.
interest rate risk	The risk that interest rate movements will have an adverse effect on a position, such as that faced by a fixed-rate borrower who has lent the funds on a floating basis.
interim dividend	A dividend paid during a financial year, representing a return based on the previous six months' financial performance and the outlook for the future.
intermediaries	Individuals or organisations that act on behalf of another to facilitate a transaction, contract or agreement. For example, banks are the largest and oldest financial intermediaries in Australia.
investment	To an economist, investment is the act of purchasing currently produced goods and services which are not consumed. They either replace or add to the nation’s stock of capital goods. To corporations and consumers, investment is often used to refer to financial flows (e.g. capital inflow) and portfolio and equity investment (e.g. buying shares).
investment bank	A bank that specialises in providing financial services, rather than lending its depositors' funds. Investment banks often provide integrated services such as transaction advisory, securities brokerage and research, capital markets and other specialised services.
investment mix	The relative proportion of different asset types in a particular investment fund.
investment risk	The risk that the return on an investment will be less than expected.
investor	One who invests primarily for the long-term benefit and not for short-term speculation. The term investor includes individuals (retail investors), but the biggest investors are normally institutional investors, e.g. life insurance companies, pension funds, superannuation funds, trustee companies and unit trusts.

issued capital	That portion of authorised capital that has been taken up by the public or shareholders.
joint tenancy	A form of property ownership common between married couples, although not restricted to this group. The legal effect of joint tenancy is that ownership automatically passes to the surviving joint tenant. Neither can dispose of his or her share by will.
jurisdiction	Normally, the geographical area over which a court or government body has the power and right to exercise authority. Also the limits of exercise of a power.
labour force	Those persons who are either employed or seeking employment. This includes employees, self-employed people and those people not in jobs but who are seeking employment. The size of the labour force is influenced by population growth, the age structure of the population and the size and age composition of immigration.
labour market	The parties involved in the employment of labour, i.e. people who are employed or are seeking to be employed, as well as enterprises that employ labour.
labour productivity	Defined as output per worker or as output per hour worked (the definition used depends on the context). The term 'productivity' is used more generally when trends in output per unit of input are being discussed without specific reference to a particular factor input.
leverage	See gearing.
liabilities	Debts owed by a company or individual.
liquid assets	Assets held in call accounts or securities that can readily be converted to cash with little or no capital loss.
liquidation	The process of realising assets and of dealing with liabilities and claims in winding up the affairs of a company, business, estate etc.
liquidity	The immediate availability of funds held in cash or assets readily convertible into cash.
liquidity risk	The risk that a financial institution or business will be unable to supply cash it is obliged to due to an inability to liquidate non-liquid assets.
listed stock	A stock that can be bought and sold on a stock exchange. Such stocks require prior approval for admission to trading on the stock exchange and must meet exchange listing requirements and ongoing business rules.
loanable funds theory of interest rates	'Loanable funds' is a generic term for money, cash, a very liquid asset, or 'funds' in general. Think of loanable funds as simply 'money'. Interest rates are determined by the interaction of people willing to supply funds and people willing to borrow funds. It is assumed that people are willing to supply more funds to borrowers (loanable funds) at higher rates of interest. At very high levels of interest, borrowers will be reluctant to borrow. As interest rates fall, demand will tend to rise. The interest rate at which the intentions of lenders is matched by the intentions of borrowers is known as the 'equilibrium interest rate', and is determined by the interaction of borrowers and lenders in the marketplace.

macroeconomics	The study of the economy as a whole. It involves looking at aggregates: total output, the general price level, employment and the balance of payments. Looking from a macro-viewpoint means looking at the 'big picture'.
managed investments	Managed investments take all or some of the decision making about the investment away from the individual. In nearly all cases, the investor's money is pooled with that of others, normally in more than one underlying asset.
management expense ratio (MER)	The percentage of a fund's ongoing fees that incorporate all expenses incurred in managing the fund, such as trustee, legal, tax consulting and audit fees divided by the average value of the fund.
management fees	Annual fees to a fund promoter to cover management costs. Fee structures vary considerably and may be a percentage of ongoing annual assets under management or a combination. Commonly expressed as a proportion of funds under management.
margin call	A demand or 'call' for money by brokers where a security (e.g. shares) has been bought using borrowed funds and the margin between the value of the securities and the debt falls below a predetermined ratio. A margin call requires the commitment of more collateral to restore the loan to the minimum ratio. With respect to options, put sellers are adversely affected by falling prices, call sellers by rising prices. Consequently, ACH calculates daily market movement in each option series. Favourable movements are credited to an option seller's account. Unfavourable movements will prompt a margin call by ACH and require the prompt lodgement of sufficient collateral to cover the potential loss. Cover can be in the form of bank guarantees, approved equity stocks or other approved money market instruments. See collateral cover.
market capitalisation	The value placed on a listed company by the market and a benchmark used to rank the size of firms. Calculated by multiplying the number of issued shares of a company by the latest sale price of its shares.
market operations	The RBA activity of buying and selling of Commonwealth Government securities (generally Treasury notes) to influence the amount of short-term funds in the financial system, and hence the overnight rate. This buying and selling of securities reflects the philosophy of market-based monetary control.
market price	The prevailing price to buy or sell a security on the stock market.
market risk	The risk that changes in a market variable will adversely affect the value of a market position.
marketability	The ease with which securities or investments can be bought or sold. Active markets that have high turnover are preferable to 'thin' markets where price fluctuations may be greater and difficulties may be encountered when trying to locate a buyer or seller.
market-linked fund	Funds where the value is determined by the market, or markets, in which the fund has invested. normally. Such funds invest a substantial proportion of assets in the share or property markets, in which market values fluctuate more than interest-paying investments. They can be contrasted with capital-secure funds. See balanced fund.

maturity date	The date upon which a fixed-interest investment or debt becomes due for repayment.
MER	See management expense ratio.
merchant bank	See MIAA.
microeconomics	The study of an economy's component parts: individual firm and industry outputs, individual prices, particular exports and imports etc. Microeconomic reform encompasses government policies designed to increase productivity and improve the efficiency with which companies and industries use the nation's scarce resources. Microeconomic reform seeks to raise incomes and living standards by improving the nation's productive and allocative efficiency.
monetary policy	The setting of money and credit conditions to achieve a desired goal for price inflation and to assist in the promotion of economic growth. The RBA influences activity and inflation by affecting the cost and availability of credit in the community.
money market	A facility for buying and selling treasury notes, short-term debt and cash itself. There are official and unofficial (inter-company) money markets operated by recognised dealers.
money market (cash management) trust	A trust that invests in money market instruments, being short-term obligations that banks, corporations, Commonwealth and state governments issue to meet their funding requirements.
money supply	The amount of cash in circulation to the general public, plus deposits held by banks.
mortgage	An agreement between a borrower and a lender setting out the terms of a loan secured over property, giving the lender a conditional right to the property in the event of default. Where real property is the security, the mortgage is registered on the title deed.
mortgage (amortising or reducing)	A common expression for the principal and interest type of loan, which is the most common form of housing loan. The repayments through the term of the loan include both interest and principal.
mortgagee	The party that lends money and holds the registered charge as security in a mortgage.
mortgagor	The party that borrows the money in a mortgage.
National Accounts	The National Accounts are the setof statistics in which flows in and out of Australia of income, spending, saving, imports etc. are measured. The two key aggregates are output (GDP) and domestic demand (GNE). The National Accounts are estimates of actual outcomes, not forecasts. They are a classification system and accounting framework that provides quarterly estimates of the aggregates which tell us most about the economic state of the nation. See gross domestic product.
needs analysis form	See data collection sheet.
negative gearing	Where an income-producing investment is purchased using borrowed funds, with the borrowing expenses offset against income earned to reduce income tax. Negative gearing is most effective when the expenses are greater than the income of the investment. Investors using this strategy must have other sources of income. Benefits are most effective with a high marginal tax rate and capital growth which exceeds the cumulative cash losses.

negotiable certificates of deposit	Issued by banks, these are evidence of a deposit of funds. The issuing bank agrees to repay the amount deposited plus interest to the holder of the certificate on the specified dates. The certificates are traded in the money market.
net assets	Total assets less total liabilities.
net tangible asset backing	Refers to the net assets owned by shareholders of a company at balance date. It expresses the asset value per share, i.e. shareholders funds less intangibles, less preference capital, divided by the number of ordinary shares.
net worth	Total value of assets minus the total of liabilities.
new economy	Refers to the new products, processes and industries that have arisen from recent rapid improvements in the utility and penetration of technology. Also referred to as the IT, digital or computer revolution.
nominal (money) wage	The actual amount paid to a worker each pay period. Conversely, a real wage refers to nominal wages adjusted for the effect of inflation.
nominal interest rate	An interest rate unadjusted for the effect of inflation, i.e. the actual dollar return expressed as a percentage of the principal. By contrast, a real interest rate is the nominal rate adjusted for inflation.
old economy	All products, processes and industries not directly related to the technology revolution. Over time, the distinction between ‘old’ and ‘new’ economy will become increasingly blurred as the so-called ‘old economy’ companies and industries implement the latest technology in the production and distribution of their products.
open market operations	Purchases and sales of Commonwealth Government securities by the Reserve Bank in the market, through the authorised dealers, recognised stockbrokers and, to a limited degree, trading banks.
operational risk	The risk of loss that arises from the failure of a financial institution’s operational systems.
option (company)	A method of raising capital, often used by mining companies. An option may be exercised to take up shares at some future date at a fixed price. Options not exercised by that date will expire.
option (exchange-traded)	Trading in the Australian options market is wholly in call or put options. Call options give the taker (buyer) the right to buy a specified number of shares at any time over a given period at a fixed price. Put options give the taker the right to sell shares. See derivative.
overbought	The market has risen too quickly and gone past fair market value.
oversold	The market has fallen too quickly and fallen past fair market value.
P/E ratio	See price/earnings ratio.
paper profits	Profits that are reflected in financial accounts but have not yet been realised.
par value	The nominal or face value of a security as determined by the company or issuing body. Par value often has no relation to the market price of the share.

participation rate	The proportion of the working age population that wants to work, ie. those people either employed or seeking employment.
Pay As You Go (PAYG)	In July 2000, a series of tax remittance systems were replaced with a single PAYG system. The new system was designed and implemented to ensure that individuals, businesses and companies pay their income tax at the same time, and that the payments align more closely with current trading conditions. Under the PAYG system, businesses pay income tax in quarterly instalments and employees have tax withheld from the payments they receive from their employer. If an employee does not supply a Tax File Number (TFN) to their employer with their employment declaration, the employer must deduct tax instalments at the highest marginal rate (currently 45%) plus Medicare levy.
PAYG	See Pay As You Go.
pension	An income stream normally paid by a superannuation fund. It can also refer to a payment from the Commonwealth Government, e.g. age or service pensions.
political risk	Risk that arises due war, riot or insurrection, expropriation of property, or government intervention through increased taxes, regulations or restrictions that endanger the viability of a project.
portfolio	A party holding a number of different shares, either directly or through managed funds, and a reasonable range of fixed interest securities and money market instruments is said to be running a portfolio. The various securities owned by an investment organisation, bank or other investor comprises the total selection of companies that an investor has placed funds in.
present value	The current value of an investment that matures or is realised in the future. The value is weighted by the period to maturity and the interest rate to be paid.
price/earnings ratio (P/E ratio)	A share's market price divided by its current, or estimated future, earnings per share. The P/E ratio is used by the investing public as a fundamental measure of the attractiveness of a particular security against all other securities. The lower the ratio relative to the average of the share market, the lower the market's profit growth expectations. Shows the number of times the price covers the earnings per share.
primary market	The new issue market for securities. Bonds, for example, sold by the Reserve Bank of Australia at its periodic tenders are primary issues, but once they are bought or sold by those who acquired them, they are being traded in the secondary market.
principal (of an Authorised Representative)	The holder of an Australian Financial Services Licence under the Financial Services Reform Act 2001 (Cth).
property	Can refer to 'real' property such as land, buildings, or home units, provided such units are strata title; or 'personal' property. Also includes home units held under company title, and intangible property. See intangible property.
property trust	A trust that invests principally in real estate, mortgages or combination of both, governed by a registered trust deed. Can be either unlisted or listed on the stock exchange.
prospectus	A disclosure document used for capital-raising equity offers. Similar to a Product Disclosure Statement.

purchasing power parity (PPP)	The theory that the exchange rate between two currencies will adjust to reflect any differences in inflation rates.
put option	A contract giving the buyer the right to sell a fixed number of shares at a fixed price on or before the expiry date. The seller of a put is obligated to buy the shares at the specified price, should the buyer exercise the right to do so. See call option.
rally	Describes a period when shares rise after a period of declining prices.
RBA	See Reserve Bank of Australia.
real estate agent	See agent (real estate).
real property	Land, or land with improvements thereon.
recession	A reduction in economic activity that is less severe than a depression. Technically, a recession exists after two consecutive quarters of negative GDP growth.
redemption	Repayment - bonds and debentures are redeemed at maturity, which means the investor is repaid the principal plus interest by the original borrower. Managed funds and other investments can be redeemed without reference to a specific maturity date.
representative	See authorised representative.
Reserve Bank of Australia (RBA)	Australia's central bank, responsible for the banking system, financial markets including monetary policy, currency stability and advising the Commonwealth Government.
rights issue	A method of raising capital where existing shareholders may buy new shares in the company, normally below the current market price. Shares are issued in a predetermined ratio, e.g. one right for every four shares held.
risk	The degree of uncertainty associated with the outcome of an investment. It is a measure of the volatility of returns generated by a project and takes into consideration the probability of loss in any investment venture.
risk premium	An additional return required by investors who have invested in high-risk assets or ventures. The greater the risk around an investment, the higher the risk premium will be.

risk profile	To determine a client's tolerance for risk, some financial advisers utilise a formal risk profile questionnaire to determine the level of concern the client has about certain issues. A risk profile is a document that normally poses a series of questions designed to clarify the client's attitude towards risk: • Security – does the client wish to preserve capital and avoid losses? • Volatility – what is the client's attitude towards volatility over the short or medium term? • Liquidity – does the client wish to have ready accessibility to cash for emergencies? • Current income – does the client require investments that will return a regular, predictable income now and in the future? • Inflation – does the client require their income and principal invested to maintain purchasing power? • Growth – does the client require capital growth from their investments? See data collection sheet.
risk-free rate or riskless rate	A discount rate equal to the return on an asset with no risk. It is normally equal to the return on sovereign debt issued by the government.
rollover	The issue of new securities to finance the redemption of maturing securities, with the effect of extending the period of the financing arrangement.
running yield	The cash flow resulting from an investment as a percentage return on the price paid. It takes no account of capital accrual.
salary (definition for superannuation)	For the purposes of calculating an entitlement to save through superannuation, salary can include: earnings, salaries, wages, commissions, fees, bonuses, allowances for skill or disability, gratuities and other benefits, plus business income less business expenses. Salary does not include expenses, allowances or fringe benefits (other than those which are exempt from fringe benefits tax); nor does it include earnings on investments.
season of life	The various periods in a person's life that reflect changing investment needs and attitudes, e.g. employment, pre-marriage, retirement.
secondary market	The market in which existing securities are traded between participants, as opposed to the primary market in which new securities are issued.
sectors of the economy	A collection of economic units, each of which engages in a similar type of activity. The Australian economy is typically conceived as made up of five basic sectors; the first four make up the domestic sector: households, companies, financial, institutions, governments and overseas. The distinction between private and public sectors has also proved useful when analysing economic institutions and their behaviour.
securitisation	The process of taking a pool of assets, such as home loans, and packaging them into a tradeable security, such as a fixed-interest security, which investors can then purchase and trade on the secondary market.

security (collateral)	An asset, such as real property, that can be liquidated towards the outstanding balance of a loan as a guarantee to lenders until the loan is repaid in full.
security (equity/fixed interest)	In relation to financial markets, the paper right to a (generally tradeable) asset. In this context, the term includes bills of exchange, bonds, share certificates or any other interest-bearing paper traded on financial markets.
semi-government security	Stock issued by a state government utility such as an electricity authority or a water board, offering a rate of return that is generally at a margin above the return available from a Commonwealth bond.
sensitivity analysis	The process of testing the impact of key variables on a decision outcome.
service industry	Unlike primary or manufacturing industries, the service industry does not provide physical products. It provides intangible products, such as information, services or advice.
settlement	The exchange of funds and legal title that complete a transaction.
settlement risk	The risk that a transaction will not be settled by a counterparty.
SGC	See superannuation guarantee charge.
share	An equity or part ownership of a company.
simple interest	Interest paid on a principle amount only, as opposed to interest that is added to the principle at intervals and compounded. See compound interest.
sovereign risk	The risk that foreign exchange transactions will be adversely affected by the domestic government.
speculator	A party that takes a position in a market simply to make a profit and who has no link with, or interest in, the item traded. Most commonly, speculators seek to profit from capital gains due to asset price rises, rather than the periodic distribution of dividends or interest.
stamp duty	A government tax on the sale of real estate, the sale of securities and the registration of certain legal documents. Historically, adhesive stamps were placed on the contract to record the value of the duty paid.
strategy	A plan or course of action chosen to achieve a particular goal. Normally used in the context of an investment strategy, which is one of the key outcomes of the financial planning process.
structural unemployment	Occurs when there is a mismatch between specific demands for labour and the skills of the existing workforce. For example, an unemployed blacksmith would be considered structurally unemployed because no amount of government policy aimed at increasing spending and output will create jobs for blacksmiths. This is because the structure of the economy is such that blacksmith skills are no longer required.
superannuation	A savings system to provide funds in retirement. Contributions can be under the auspices of an employer, personal contributions or government-regulated compulsory superannuation guarantee charge payments. Superannuation funds enjoy taxation concessions on their income and payments made on retirement.

superannuation guarantee charge (SGC)	Introduced in 1992, the SGC compels all employers to contribute a minimum level of superannuation support for all employees (subject to very limited exceptions). If the contributions are not made by an employer in respect of each employee, any shortfall will be collected by the Australian Taxation Office through the taxation system. Amounts collected by the ATO as a superannuation guarantee charge are not tax deductible. If employers comply with the superannuation guarantee contributions, these contributions are tax deductible up to certain limits.
switching	Fund promoters with a stable of investments sometimes allow investors to switch between them. They may or may not charge a fee for this right.
technical risk	The risk that new or untested technologies being used in a project will not prove to be viable.
tenancy-in-common	A form of real property ownership where each party can dispose of their share of a property at will in whatever way they wish, with or without the consent of the other owners. It was formerly a common form of property arrangement between parties other than married couples, e.g. siblings, business colleagues, investors.
tender	Similar to an auction, where bids are sought for a commodity or security. Commonwealth bonds are sold by periodic tender, at which intending investors submit bids to the Reserve Bank of Australia.
term insurance	Life cover of a fixed amount for a specified period of time. Like fire or car Insurance, it expires on a given date. As it contains no savings element or surrender value, it is less costly than other forms of life cover.
term structure of interest rates	The range of interest rates across the spectrum of maturities. The yield curve is a graphical representation of the term structure of interest rates because it depicts interest rates on securities of equal credit risk, but with different terms to maturity.
terms of trade	The ratio of export prices to import prices. The terms of trade measure the international purchasing power of domestic goods. A big fall in the terms of trade means a loss of international purchasing power. In essence, the ratio shows the quantity of domestic goods that must be given up in order to obtain a unit of imported goods.
time value of money	An expression of the ability of money to earn interest. A dollar today has greater value than a dollar tomorrow, as the dollar held today can be invested to bear interest.
Treasury note	A short-term Commonwealth government security issued through the RBA for either 91 or 182 days at a discount from face value.
trendline	A line on a graph (bullish or bearish) used to identify the market direction.
trust	Money or property for which legal title is held by a person or organisation (the trustee) on behalf of, and for the benefit of, another (the beneficiary). Common forms include: unit trusts, discretionary trusts and superannuation trusts.
trustee	The legal owner of property, having an equitable obligation to hold the property for the benefit of the beneficiaries.

unemployment rate	The number of people unemployed expressed as a percentage of the labour force. People defined as 'unemployed' are those who say they are seeking employment, but are not currently employed.
unencumbered	A property whose title is free of encumbrances, covenants or restrictions.
unsecured loan	Loans made where there is no security given.
unsecured note	Loan monies that are raised for a fixed term carrying a fixed rate of interest, but for which no security is given. In the event of default or insolvency of the issuer, unsecured note holders rank with ordinary creditors, as opposed to debenture holders, who have precedence over them.
valuation	A report detailing a professional opinion regarding the value of a security, property or other asset carried out by a valuer, who must be registered or licensed.
volatility	Used to describe the fluctuations in markets or prices in shares or units, and thus the measure of risk in an investment. Measure of the expected amount of fluctuation in price of the underlying security calculated using the standard deviation of average daily price change. Two stocks may have the same average price variation but different volatilities if one is more prone to fluctuation than the other.
whole-of-life policy	Life cover that is payable upon the death of the insured or when a certain age is reached. This type of policy has a savings element and therefore a surrender/cash value.
yield	The annual return on an investment expressed as a percentage of the value of the asset. Yield is calculated by dividing net annual income by the purchase price of the asset.
yield curve	A graph showing the relationship between the yield to maturity and the term to maturity of a group of similar securities.
yield to maturity	The yield provided by a bond that is held to the maturity date, taking into account both interest payments and capital gains or losses.