



Guide To...

Wealth Creation - Glossary

All Industrials Index

An index that measures the price of shares listed on the Australian Stock Exchange (ASX) in sectors such as infrastructure and utilities, banking, chemicals, retail, transport, property, tourism and leisure.

All Ordinaries Index

An index that measures the movements in the major shares listed on the Australian Stock Exchange (ASX). The All Ordinaries is broken into a series of sub-indices including the All Industrials and All Resources Indices.

All Ordinaries Accumulation Index

An index that measures the movements in the major shares listed on the Australian Stock Exchange (ASX), taking into account the reinvestment of dividends.

ASX 200

An index that measures the top 200 Australian listed companies

All Resources Index

An index that measures the price of shares listed on the Australian Stock Exchange (ASX) in sectors such as gold, other metals diversified resources and energy.

Assessable income

Income including capital gains, on which you pay tax (i.e. your total income before deducting allowable tax deductions).

Asset allocation

The process, by which you select where, and into what assets, you invest your money.

Australian Securities and Investment Commission (ASIC)

The Government body responsible for regulating companies, investments, and licensing financial advisers/financial planners.

Balanced fund

A fund that invests in a mix of different asset classes, including shares, property, bonds and cash.

Bonds

Bonds are issued by Governments and large corporations in Australia and overseas. The bondholder receives interest for the fixed term of the bond, which can typically range from 2 to 20 years and the capital value is influenced by changes in interest rates.

Capital Gains Tax (CGT)

A tax on the growth in the value of assets or investments that is payable when a gain is realised. If the assets have been held for more than one year, the capital gain may receive concessional treatment.

Cash Management Trust (CMT)

A Cash Management Trust is a managed investment that invests in high-yielding money market securities. CMTs tend to provide a flexible, better performing alternative to a bank savings account.

Consumer Price Index (CPI)

A measure of inflation taken each quarter based on the price of a basket of typical household goods and services.

Disposal of an asset

Refers to the sale or transfer in ownership of an asset.

Diversification

Spreading your money across asset classes, sectors, markets and fund managers to reduce investment risk.

Dividend

Distribution of part of a company's profits to shareholders expressed as a number of cents per share. Companies typically pay dividends twice yearly – an interim dividend and a final dividend.

Dividend yield

The dividend expressed as a percentage of the share price.

Equity

Equity is the interest or value that an owner has in an asset, over and above any debt against the asset. For example, the equity of a homeowner is the value of the home less any outstanding loan.

Franked dividends

Dividends paid by a company out of profits on which the company has already paid Australian tax. Entitle resident shareholders to a tax offset.

Instalment gearing

Investing on a regular basis by periodically drawing on an investment loan. Takes advantage of dollar cost averaging and gives you the flexibility to make adjustments to your gearing and investment arrangements, should you need to.

Liquidity

The capacity of an investment to be readily converted into cash. Listed shares, for example, are relatively liquid because they can be easily sold on the market.

Managed investment (or managed fund)

The collective term used to describe investments that pool your money with the money of other investors to form a fund that is invested into assets based on set investment objectives. A 'sector specific' fund invests in only one asset class (eg. global shares) while a 'multi-sector' (or 'diversified') fund invests in a number of asset classes.

Management expense ratio (MER)

The MER is the total annual fees and expenses of a fund divided by its average net assets.

Margin call

With a margin loan (see below for Margin Lending), the lender is prepared to lend up to a maximum limit known as the loan to valuation ratio (LVR). The LVR is usually the loan amount expressed as a percentage of the assets offered as security. If you exceed your LVR, you will be required to make a margin call, which means you must either repay part of the loan (via a cash payment or by selling assets) or provide additional assets as security.

Margin lending

A means of borrowing money to invest in shares and/or unit trusts where the assets themselves form the security for the loan.

Marginal tax rate

The stepped rate of tax that you pay on your taxable income.

Market value

The price you would get if you sold your asset to an arms length party. The market value of a share is the last price at which the share traded on the stock exchange.

Portfolio

A 'basket' of investments. A managed investment contains a portfolio of investments, which is managed by a portfolio manager.

Property securities

Include shares in listed property companies or units in property trusts. They are an alternative to investing in property directly and offer greater liquidity and diversification.

Real rate of return

The return from an investment after taking account of inflation. For example, if your investment pays 5% and inflation is 4%, your real rate of return is 1%.

Reinvestment

Using the dividends from shares or distributions from managed investments to purchase additional shares or units.

Risk

The chance of losing money or not having your expectations met. Risk can mean different things to different people. An investment considered risk-free because the capital is protected (eg. A term deposit) may still involve the risk of not keeping up with inflation.

Risk-averse

Someone who adopts a conservative approach with their money is usually considered risk-averse.

Taxable income

Your assessable income after allowing for tax-deductions. Usually subject to tax at marginal rates plus the Medicare Levy.

Tax deduction

An amount that is deducted from your assessable income before tax is calculated. You can claim deductions in your annual tax return or, if your total deduction is significant, you can apply to the Tax Office for a variation of PAYG tax.

Tax-effective

The term given to a strategy or investment that provides a return that may lead to a tax benefit, such as a tax deduction or tax offset.

Tax offset

An amount deducted from the actual tax you have to pay. This is usually claimed in your annual tax return.

Term deposit

An account that pays a fixed rate of interest over a fixed term. A penalty can apply if funds are withdrawn before the expiry of the fixed term.

Volatility

Refers to the fluctuating value of an investment. A share is said to be volatile if its price moves up and down frequently over a short space of time.

Yield

The annual income from an investment expressed as a percentage.

If you have any queries in relation to the content of this material, please do not hesitate to contact Kate Kimmorley the Principal Financial Adviser at Kimmorley Financial Management on (07) 5591 1725.

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